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I propose to focus my remarks on changes to higher education policy in England.

That's partly because until very late in the day I thought this was supposed to be what this evening's discussions were going to be all about anyway.

But I have a better excuse than that. Economic growth – which is now the theme of our debate – has to be built on a platform of confidence and stability.

And these are two qualities that are in short supply in England's HE system right now.

You can demonstrate this in a number of ways. To take just one example: if 27 English universities have decided at this late stage of the game that a change in the rules means they need to revise their fees structure for the next academic year, then I think you can say that the system is unstable.

My plan is to talk about the big picture – the three or four broad ways in which universities can and do contribute to growth in an economy, and how these might be affected by policy changes.

And I should start my emphasising that these views are very much my own. I'm not speaking for any institution with which I am associated.

I'd also like to acknowledge that although there are lots of things to worry about in the changes that are now under way, we could have been in a much more dangerous place. The fiscal crisis meant that the *status quo* was not an option: big changes were inevitable, one way or another.

That's why whenever I see David or his colleagues these days I think of Hillaire Belloc. You'll remember what he said:

"… and always keep ahold of nurse

For fear of finding something worse."

Universities' biggest single contribution to a dynamic economy is the well educated graduates of all ages that they churn out every year into the nation's workforce.

This is by far the most important form of knowledge transfer.

The radical changes in the way teaching is funded will affect different institutions in different ways. Those with the best brands – not necessarily the same as those who do the best job – should come out of the reforms quite well. If they choose to do so, they will be able to take on more students with the best A level qualifications. And they will be able to sustain a level of fees that could more than offset the loss in teaching subsidies taken across the range of disciplines.

The outlook for many other institutions is much more uncertain.

There is no way of knowing whether demand will continue to exceed supply across the system once tuition fees rise so sharply. The betting seems to be that students from middle income families will be relatively price insensitive. But no one has the first idea about the likely behaviours of students from poorer backgrounds.

That's why lots of vice chancellors will tell you that they haven't a clue about how many new students will be walking though their front door next autumn.

And that in turn puts a question mark over the potential new skills that will be flowing into the workforce in a few years time. What kind of graduates? What disciplines? How many?

There are a number of other uncertainties stuck in the detail of the changes. Perhaps of most interest to employers is what they will mean for the teaching of science, technology, engineering and maths – the so called STEM subjects so beloved by members of the CBI and others. There are at least four different sets of questions here.

Since many more students do well at A levels in the humanities than they do in the STEM subjects, will STEM students find it harder to find places in the best universities under the new quota system?

Will the teaching subsidy that is still going to be paid out to support expensive-to-teach STEM subjects be big enough? Some universities say it won't: they will lose out under the new arrangements even if they charge the full £9,000 fee.

What will happen to the funding of postgraduate work? The White Paper doesn't discuss this question – and the answer will be especially relevant to STEM, where the falling proportion of home students on postgraduate courses is already a big worry.

And question number four: HEFCE is proposing to offer protection for expensive STEM places in creating the price based margin of 20,000 places. How will that work?

High quality university teaching makes a critical contribution to a growing economy. It will be some years before we will be able to see how this will be affected by the changes that are now working their way through the system

A second vitally important contribution that universities make to economic performance lies in their role at the centre of a successful city or region. They are a magnet for talent and for inward investment; a hub for new ideas, creative thinking and innovation; and a source of relatively well paid jobs sometimes in places where there are precious few others like them to be found.

In an age of open innovation, universities are the partner of choice for business R and D. And we can all think of half a dozen cities in the UK – not just Cambridge – where the local economy has been transformed by the relations that have been built between the academy and business.

Indeed, it's hard to think of a really successful city anywhere in the world that does not have a successful university or two at its heart.

A fair number of universities will be broadly unaffected by the funding changes – as I've suggested, some might emerge in a rather better position than they are in today. But there are also likely to be losers: indeed, there is already speculation about the number that will struggle – and may fail - to survive in a much harsher environment. Just as a successful university is a tonic for the economy in which it is located, so a failing institution would be a serious drag on the neighbourhood.

This problem – what to do about those universities which may be unsustainable after the changes – is going to need much more thought.

A second series of policy changes will also affect universities in their role as a magnet for talent. There are worrying reports about the sharp drop in student applications from outside the EU – especially from India - as a result of the stricter approach to visas.

Then there was the powerful letter in Monday's FT from a group of economists warning that Home Office plans to reduce dramatically the number of non-European Union economic migrants who have the chance to settle in the UK would have a seriously adverse impact on growth.

In their words: "The policy could almost have been designed to deter the migrants whom we most need; and for those who do come, to expel many of those we would most like to remain."

The university sector would be especially vulnerable to such changes.

Let's hope it's not too late to persuade the Home Office to change its mind. I'm confident that the Minister and his colleagues in D Biz will be leading the charge on this one.

Research is a third important way in which universities contribute to economic growth. And here the coalition government certainly does deserve three cheers for its decision to maintain the research budget at least in nominal times, at a time when everything else was being cut back heavily.

However it's important to remember that research can take years to translate into economic activity, and some never will. Investment here is not a short term growth fix.

Also this is not a linear activity, where you pour money in at one end of the pipeline and wait for commercial products or services to pop out at the other. It's all but impossible to track the link between research investment and growth.

Successful research collaboration is built around all kinds of different networks and disciplines, and is therefore not independent of the well being of the universities in which it is undertaken.

In other words, it’s tough to run a glitteringly successful research project in a weak or failing institution.

If universities are to make their full contribution to innovation and economic growth, they need to be confident about where they stand today, and where they are heading tomorrow.

Now it’s inevitable that at this stage of a radical reform programme, there is a great deal of uncertainty in the air. And I think it’s fair to say that taken as a group, vice chancellors have a tendency to cry wolf. Universities have had big shocks before – in the early 1980s, for example, and survived to tell the tail.

But there is a reason to be anxious about the pace at which these radical changes are being driven through. The White Paper came six months later than originally promised, and a number of important consultations are still open or just closing. The new regulatory structure is complex.

The pace and direction of new competition from the private sector is hard to judge, and it’s impossible to judge how far the model of a multi-disciplined institution – with some courses cross-subsidising others – will have to change once private sector cherry picking really gets going.

Quite dramatically, I would guess, in some lower ranking institutions.

Moreover it’s hard to find anyone who thinks the new model is sustainable over anything more than the next few years. For one thing, it’s not at all clear how much it’s going to cost the taxpayer. There are those who believe that the Government is being much too optimistic in its estimates of what proportion of student loans will get paid back, and that the new system could actually end up costing the taxpayer more than the old. If that’s right, will further radical changes be required? Cuts in student numbers, maybe?

And depending on the pace of inflation, it may not be all that long before we have to start thinking about the level of the fees cap –and go through the whole weary process all over again.

A test of any policy outcome is to ask what the policymakers would have said if you’d suggested to them ahead of the event that this was what was going to happen. My guess is that if you had described the current plans to the coalition parties after the election – Conservatives as well as Lib Dems - they would have said you were nuts.

So how did we get to this point?

The answer seems obvious.

In the run up to the big spending decisions in the autumn of last year, the Department of Business faced a very big problem. It was the largest spending department not to be ring fenced in any way against the cuts. And universities were the biggest single item on its budget. That presented some really dreadful political choices – sharp cuts in student numbers, salami slicing funding, tuition fee increases – probably a mixture of all three.

Then along came the Lord Browne review, which offered a magic lifeline. Putting most of the funding for teaching in the hands of the students rather than the universities would bring very large immediate cash savings. Of course it also brought contingent liabilities, in the shape of the burgeoning student loan book –but they wouldn't materialise for quite a period and wouldn't show up in the spending numbers anyway. Smoke and mirrors, maybe, but probably better than any likely alternative, certainly in political terms.

The change was ideologically attractive too, since it placed power in the hands of the student and could be presented as a shift towards competition and market forces. It's a pretty odd sort of market, it's true, with a cap on prices and numbers, severe information asymmetries, and heavy handed government intervention needed to make it work. But still, the changes more or less fitted into a broader narrative.

But there was a problem. The Lib Dems had campaigned on the abolition of tuition fees, never dreaming for a moment that they were about to get their hands on the levers of power. They were going to be in big trouble on tuition fees whatever happened. But they surely couldn't stomach Lord Browne's idea of removing the fee cap altogether. And it was important that the system could be presented as progressive, with an emphasis on widening access.

So the Browne review needed to be re-cooked. The coalition claims that it has accepted roughly 85 per cent of Browne's proposals. But it's the 15 per cent that has been left out which has left at least some members of his team snarling with frustration.

So far as I know, the decision to set a standard figure for fees at £6,000 with an upper limit of £9,000 in very exceptional circumstances was not based on any kind of research. Indeed, Nick Clegg gave the impression he thought the university regulator had the power to fix fees for each university.

In any event, the decision ignored the fact that universities are brilliant at gaming such proposals, and that for most it would be in their interest to go as close to the £9,000 mark as they could.

Demand for places was running ahead of supply; a university that charged lower prices might be saying something about how it saw itself; inflation was rising, and this would probably be the last chance they would have to get ahead of the game for some time.

And the coalition ignored another of Browne's ideas, which was that universities should pay a levy on the income from fees above £6,000 to cover the extra costs to the taxpayer of providing students with upfront finance.

So it quickly became clear that there was going to be very little competition on prices, and that the high level of fees was going to push up the costs of funding student loans.

No wonder the White Paper took so long to emerge. As it became ever clearer how universities were going to play the game, this must have been one of the most painfully sensitive points in the whole of the coalition relationship. Somehow or another, a way had to be found to shift the needle in a different direction.

And that's how we've come up with a scheme that in some ways would have been worthy of Gosplan.  A system where places at the top end are reserved for candidates with A level scores of AAB or better, of which a university can take as many as it wants and can handle. And where another 20,000 places will go into a separate pool, and can be competed for by institutions whose average fee does not exceed £7,500.

I think I've got that right?

No wonder so many institutions are scrambling to revise their plans.

What are the likely consequences of all this?

Top rank universities will benefit from a flight to quality, as the best qualified students home in on the best ranked institutions – which will be allowed to accept more of them than they do today.

There will be a growing number of for-profit entrants at the bottom end of the scale,, offering courses which don't cost much to put on, like business, and which don't have to cross subsidise more expensive courses, such as engineering.

Some of the post 1992 universities, which offer low cost courses and have a good record of getting their graduates into work, will be OK. Others, though, will find themselves locked in a struggle for candidates with the FE colleges.

Some of the middle rankers, including members of the Russell group, will have an increasingly sticky time.

Their high fees will be hard to justify in a more competitive world. Newcomers will be cherry picking their most profitable courses. There will be increasing competition from continental Europe, where universities from Madrid to Maastricht are offering competitive English language course for free. And their revenues will be much more volatile than they are today, as student preferences shift around.

Difficult times ahead.

So what should the Government do now?

Three things above all, I would suggest.

It should work really hard to give prospective students and their families the information they need to make sensible choices about the costs and benefits of going to university, and about what different institutions have to offer.

The piece meal way in which the policies have been launched, with all the initial focus on fees, means there is a lot of catching up to do. In response, the government has set up an Independent Taskforce on Student Finance Information – I've no idea whether this can do what's required.

Second, it should follow the wise advice of the Department of Business Select Committee in the report it published earlier this month. That is, it should take its foot off the policy accelerator, and allow the changes that have already been announced time to settle down. In the Committee's words,

"we strongly believe that (the reforms) should be implemented as a package and not in a piecemeal way as both students and universities need certainty in the new system if they are to make informed decisions. We therefore urge the Government to ensure that its delivery programme has sufficient flexibility to accommodate a later implementation to deliver its reforms. To do so would be seen as strength both for Government and for the sector it seeks to reform."

In other words, we need more stability.

Finally and most important, it should be bolder in its aspirations for our university system. Of course universities are a powerful engine for innovation and economic growth. Of course, they need to turn out high achieving graduates for the workforce.

But of course, too, they are about much more than that. Maybe the British Academy is being harsh in its criticism of the reforms, which it says imply that "study at university is only successful if it leads to a higher salary in employment."

But we must never lose sight of the fact that higher education is a public as well as a private good, bringing benefits to the nation as a whole.