Jubilee 2022: Writing off the student debt

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PEF Progressive Economy Forum

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The Labour Party is committed to abolishing tuition fees from the day they enter office, but they lack a policy to deal with the outstanding unfair debt. Here, Professor Danny Dorling and Michael Davies propose a solution in the spirit of debt jubilees past – Jubilee 2022.

In summer 2012, English university fees were suddenly and unjustifiably tripled to become the highest in the world.[1] Children were cajoled into taking out enormous debts in order to attend university. As with the rest of the austerity agenda, the cost of this change was largely borne by young women[2] – the gendered nature of this injustice should not be forgotten. Nick Clegg, David Cameron, Peter Mandelson and David Willets have a great deal to answer for.

University fees corrupt universities. They commodify and thus cheapen education, turning it into a marketplace where those who are best able to lie about their product succeed. The supposed benefits of markets simply do not apply to higher education; for one, students and their parents are not repeat consumers and so are easily duped.

Labour is committed to ending tuition fees from the moment it is elected. This commitment to educational justice and quality is laudable, and will be a step towards ensuring our universities act as institutions for the public good, not profit-maximisers.

However, Labour as of yet has no policy on what to do about outstanding student debt. It cannot face the next election telling young people that if they are unlucky enough to have started university the day before a Labour government is elected, they will still have to pay off a huge loan to cover their fees. This creates a dangerous cliff edge - not least for English universities, as it would make sense for students to defer entry until after a general election.

The solution is very simple; Labour should introduce a cap on maximum tuition fee loan repayments for first-time, undergraduate degrees. They might call it **Jubilee 2022** - named after the year in which it will be implemented, if the next General Election is held as scheduled in that year and Labour win. This would come ten years after unreasonable fees were introduced in September 2012.[3] If Labour is elected before 2022, the cap begins to operate even earlier and can be renamed appropriately. The principles of the cap are as follows:

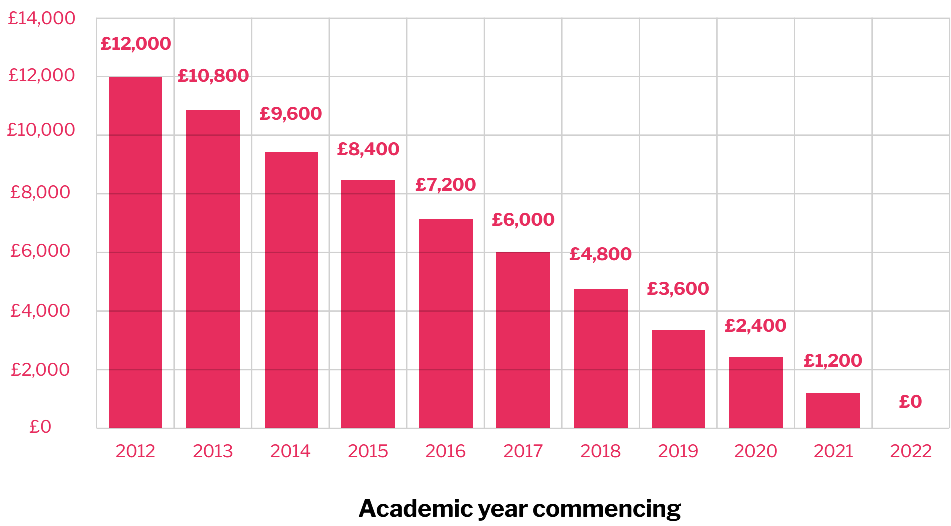
1. No student who started their course in 2012 should repay more than any student who started the same course in 2011 (when fees were ~£3000 a year).

2. No student who starts their course in the year immediately before a Labour government is elected should pay more than a student who starts the same course a year after. In other words, they should pay no tuition fees and their loan ought to be written off entirely.

3. In between 2012 and the year of a Labour victory, the maximum repayable loan should reduce linearly. If Labour win in 2022, then all those who entered university in 2017 (i.e. halfway between 2012 and 2022) should only have to pay back half of the maximum that any student who entered in 2011 would have to pay.

To illustrate, the graph below shows the upper limit on tuition fee loan repayments under Jubilee 2022 for students on "standard" three-year courses, according to the year they started their studies. The £12,000 figure comes from three years of pre-2012 tuition fees, plus interest charged at the levels which are known up until the end of 2017 and roughly estimated up to 2022. The cap amounts will be set in nominal terms at the time of implementation, and will not rise with interest rates or inflation going forward.

Cap on tuition fee loan repayments under Jubilee 2022 by year of first enrolment.



The cap on repayments also applies to those made *before* the implementation of Jubilee 2022. Using the figures from the graph on the previous page, for example, if a student who started university in 2018 has already paid back £2000 of her tuition fee loan by 2022, she would only need to pay £2800 more to pay it off entirely. (The very few who have been able to repay more than the cap for their cohort, likely with family support, will not be refunded the excess, though.)

Jubilee 2022 only covers tuition fee loan repayments, but for students who have both a tuition fee loan and a maintenance loan (to cover living costs), any repayments made before the cap is implemented are assumed to be repayments of the maintenance loan. This ensures the cap acts in a progressive manner - those with larger maintenance loans, who tend to come from poorer households, gain more.

This is fair, easy to implement, and does not involve the immediate winding up of the Student Loans Company. Most notably, it is fair to all those who do not go to university; they should not have to live in a country where it is assumed that graduates will be paid so much more than non-graduates that the former can afford to repay such vast loans. Such a system embeds a toxic graduate/non-graduate dichotomy, which may go some way to explain why the UK has such a dismal approach to apprenticeships and technical education in comparison to its mainland European neighbours, where tuition fees are either much lower or non-existent.

How will we pay for this? Where will the money come from? This genre of question is an old favourite of presenters and broadcasters, especially when faced with left-wing interviewees. (The Right are not pushed nearly as much on this – the Conservatives didn't even bother costing their 2017 manifesto!)

We might well answer our interviewer with another question – if the rest of Europe can do it, why can't we? We will find the money in the same way that almost every other country in Europe manages to.

More specifically, we could raise taxes on wealth, corporations and the highest incomes to levels comparable with those in the rest of Western Europe. Or, insofar as higher education is an investment in the future productivity of the economy, we might partially or completely fund it through borrowing.

In any event, the key is that we transform a set of onerous private debt obligations, undertaken and implicitly agreed to almost exclusively by those children (when they were aged 17) whose parents could not afford to pay tuition fees outright, into a social obligation borne by the government – borne by us all collectively. This is both a far more progressive way to fund higher education and a recognition of its status as a public good.

The cost of implementing Jubilee 2022 is small in relation to the overall budget and moves the funding model away from the fantasy of putting things off balance sheet.[4] This policy only covers tuition fee loans in England. Other arrangements will be required for Wales and Northern Ireland domiciled students, where the model is different and the problem less acute, and Scottish students do not pay tuition fees in Scotland.

Maintenance loans are a much more complex issue and require another policy. They are also far more regressive than tuition fee loans, though, and so a solution is vital. As one step towards it, the Jubilee 2022 policy could mandate that no further interest is charged on maintenance loans for students who started their courses between 2012 and 2022. A new maintenance scheme needs to be designed for implementation in 2022 as a priority.

In the meantime, it is very easy to make the case for the abolition of tuition fees to ensure our education system is fit for purpose – and the emphasis must be on its "purpose". The purpose of higher education, like all education, should be for the good of the many, not the gaining of individual advantage by the few.

We do not seek to offer a full defence of Labour's plans to abolish tuition fees here. Rather, we take the virtues of this as given, but note that it would simply be wrong to over-tax the 'unlucky' generation who turned 18 after 31 August 2011, but before a change of government. Jubilee 2022 is one of the policies to bridge that gap.

Further interventions are needed in other areas where young people have been unfairly affected: on housing, benefits, on how we have treated the environment, and on pensions. There is a great deal to be done. The outstanding student debt of 2012-2022 is one of the more simple problems to solve.

A warning to loan sharks

If any of the post-2012 loan book has been sold off before Labour come to power, that will need to be dealt with by a change in law. The British government has recently been trying to sell off parts of the growing English student loan mountain to the private sector in small – and they hope, not newsworthy – slices. But so far this privatisation has not been going well.

At the end of November 2017, the UK government announced it had lost £800 million on the sale of just 8.6% of its pre-2012 student loans. The government plans to quietly sell more of these loans over the next four years until 2022.[5] So far they have shown little interest in a public debate being opened up on this issue. But at least those pre-2012 debts are not as large.

It may turn out, though, that future loans are sold for even less to the private sector, with an even bigger loss being recorded by the state. Thomas Hale, writing in the Financial Times in January 2018[6], concluded that:

> *"The debate around the discount on the sale has important implications not only for the value of tens of billions of loans still sitting on the government's accounts, but also for the overall viability (and political acceptability) of the current funding model for English higher education, and for education models in many other economies around the world."*

The (then) Minister for Universities Jo Johnson attached a promise to the sale of these pre-2012 loans. Any future government would have to compensate the investors who bought the loans in the event that the electorate decided to vote into power a government that would change their terms.[7] He called such a prospect "democratic risk". Labour must explain that, going forward, it will not be tied to the venality of past administrations. It must point out that investors buying any student loans, pre- or post-2012, are taking a huge risk.

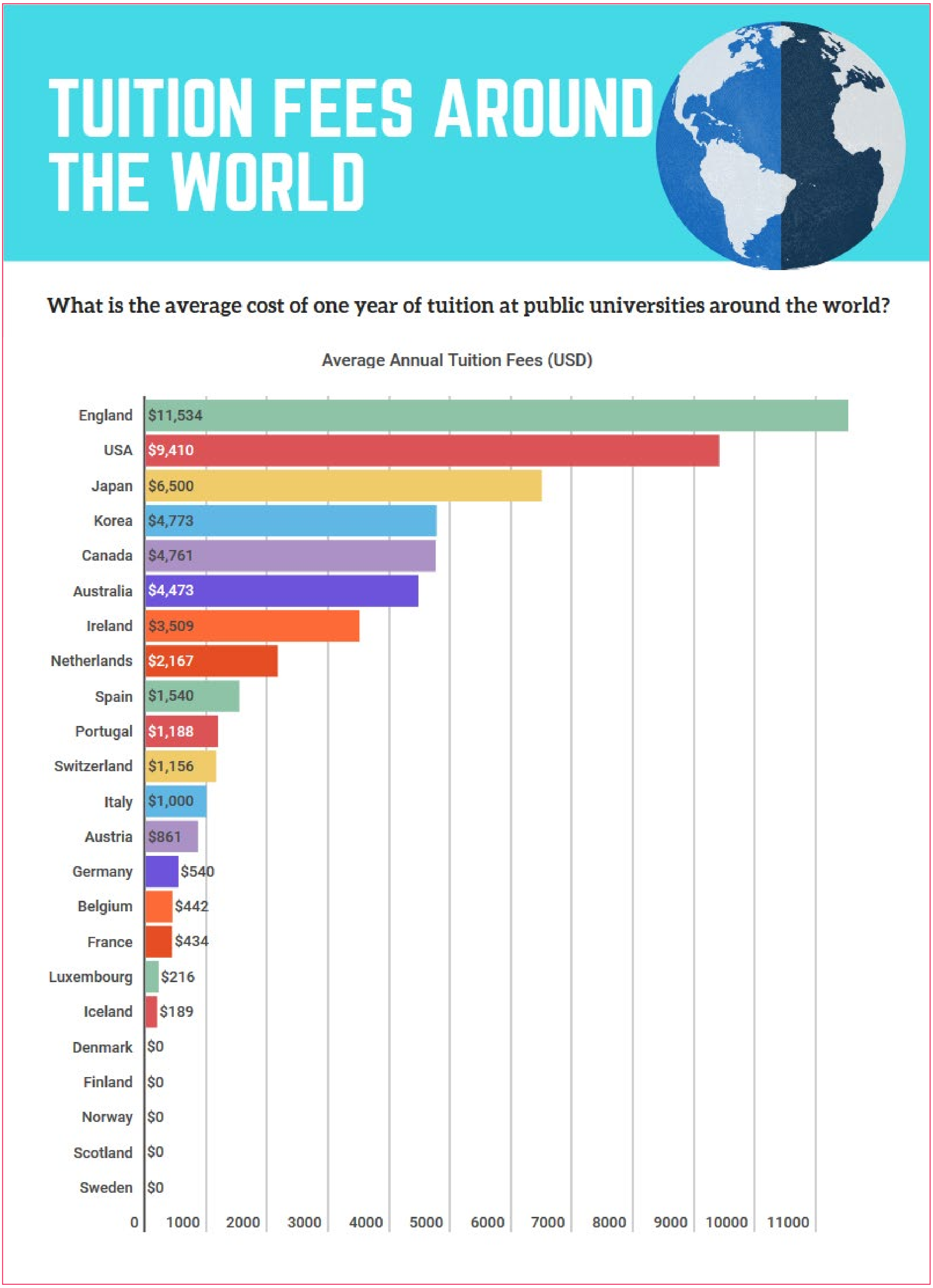
To be clear: any company buying this toxic debt needs to be warned now that they are buying something at great risk to their company's future solvency. A future Labour government could write off this debt entirely if it is purchased by the private sector, or enact a windfall tax to ensure no profit is made, and investors must factor this risk in. After all, risk is the market counterpart to reward – the reward here being the money investors stand to make off the back of very young adults faced with one of the most expensive higher education systems in the world. We should never have made people have to decide at the age of 17 whether they were willing to incur large amounts of debt in order to attend university. It was, and remains, wrong.

The toxicity of this debt – reputational and otherwise – by rights ought to prevent any sell-off of the student loan book, precluding the need for legal action in this area once Labour comes to power.

The international peak of inequality

England has the highest student fees in the world. Research by the creator of the "Student Loan Repayment Calculator" website – drawing on a large number of sources[8] – was published in March 2017 and is illustrated in the diagram below.[9] The key comparator is between the England and the USA. OECD statistics report that the average annual fee for a bachelor's degree at a public institution in the USA is $8,202, as compared to $9,019 a few years ago.[10] The figures will change year by year, but England remains a substantially more expensive place to study than the USA.

A year ago, the Economist published alternative figures suggesting that in many US states it was more expensive to go to university than in the England.[11] We would suggest trusting the OECD statistics, as they will have taken into account factors other than just the headline fees, such as bursaries. But worrying unduly about such comparisons misses the main issue – both England and the USA are out of line with the rest of the world. The student debt mountain in the USA is completely out of control. And both countries are – not coincidentally - two of the most unequal of OECD countries.



Source: Student Loan Calculator [12]

Learning from Scotland

In Scotland, the debate has moved on from fees. A report published in November 2017 suggested that all university students in Scotland should have a legal right to £8,100 a year to live on, and half that amount when they are at a further education college. The tricky question of how to fund such maintenance payments is rising up the agenda. [13]

If Scotland wanted to aim higher it would have to become an independent country. Then it would have the political power to choose to do this, as Lorenza Antonucci says:

> *"A truly transformative move would be to implement a Nordic system of student support, where the absence of tuition fees is accompanied by a generous and (above all) universal system of grants (and loans). In this system, grants would be guaranteed to all students, regardless of parental income. This move would be a radical departure from the British system of HE which is based on individual investment."* [14]

England is currently a world away from Scandinavia. It takes decades of building up social solidarity to achieve what they have achieved, let alone the quality of public debate and understanding in Scotland. Or, it takes an almighty economic shock.

Conclusion

As Brexit looms closer, various schemes for Britain to "find new markets" will be touted. One approach will be to suggest that because our higher education is the most expensive in the world, that means that (in the immortal words of Tina Turner) it must also be "simply the best, better than all the rest". We once said the same about our banks.

Putting too many eggs in one basket is unwise. Claiming that something must be good because it is expensive is dangerous. Suddenly making universities very expensive overnight and then suggesting that the price reflects sudden new-found quality assumes that you are aiming your marketing at people who do not understand when they are being conned.

Higher education works best outside of market-like organisational structures - it simply does not have the requisite qualities of a "market good". See the fate of Trump University for a striking example of the pitfalls of marketising higher education. [15]

If we want to ensure that our university education best serves its purpose, we abolish tuition fees immediately after the next election. Labour will do this. But they must also tackle the regressive nature of the current maintenance system, and ensure that those who started university in the decade prior are not punished unduly for circumstances beyond their control.

We must start a debate on the former as a matter of urgency. In the meantime, we propose Jubilee 2022 as a simple solution to the issue of outstanding post-2012 tuition fee loans. Without addressing this gross and unfair outstanding debt, the injustice of having tripled tuition fees in the name of "austerity" cannot be fully consigned to history.

Endnotes

1 This short paper builds on an earlier argument made here: Dorling, D. (2018) Botched loan privatisations and the highest fees in the world, WonkHE: Higher Education: policy, people and politics, February 19th, http://wonkhe.com/blogs/botched-loan-privatisations-and-the-highest-fees-in-the-world/. Separate polices will be required for Wales and Northern Ireland. Scotland already knows what it is doing and is doing it well.

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NB: Figures are the average cost of a native attending a public university
NB: Some countries claim free tuition but charge administration fees, which are included in the figures

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Progressive Economy Forum

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The Progressive Economy Forum (PEF) seek to advance an alternative to the dominant economic narrative. It brings together a Council of distinguished economists and thinkers with the aim to develop a progressive macroeconomic programme and to foster wider public engagement with economics.

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