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Working Paper

Jubilee 2022: Defending free tuition

Michael Davies and Danny Dorling

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Michael Davies

PEF Economist and Secretary

Professor Danny Dorling

Halford Mackinder Professor of Geography, University of Oxford and PEF Council member

Anyone advocating for the abolition of tuition fees must address the issue of outstanding student debt, for both practical and ethical reasons. This is the rationale behind Jubilee 2022: a proposed cap on maximum tuition fee loan repayments for first-time, undergraduate degrees, explained in our paper *Jubilee 2022: Writing off the student debt*.

We received a lot of feedback on our initial proposal, some of which will be helpful in informing our future work in this area. Much of the feedback, however, focussed not on debt cancellation *per se*, but on the worthiness of abolishing tuition fees in the first place. In this paper, we set out the case for funding higher education not from tuition fees or 'graduate contribution systems', but through progressive, general taxation.

Introduction

We were grateful to receive a large amount of public and private feedback following the publication of our 2018 report Jubilee 2022: Writing off the student debt.[1]

The majority of responses were positive. Indeed, some thought that we did not go far enough. Why only write off some of the debt, given that students were promised no increased debt by a party who, in coalition, went on to impose the highest tuition fees in Europe? Why restrict attention to tuition fee loans? Why restrict our attention only to debt amassed since 2012? Why were we not suggesting a more radical reform of the university and further education funding system?

To these questions, we answer that our proposal was intentionally limited in scope. The current system does not work, and the recommendations in the recent Augar Review[2] do little to address its flaws – indeed they would increase the repayment burden on lower-earning graduates while doing nothing to address the fundamental problems of marketisation and financialisation in tertiary education.[3] The Labour Party, rightly, promises to abolish tuition fees upon election. But without a policy on the outstanding student debt, a vast disparity would arise between pre- and post-election student cohorts.

Besides being unfair, the new disparity would serve to destabilise the higher education system through obvious incentive effects; namely, potential new students would have an incentive to delay applying for a place to study at a further education college or university until after they knew the results of a future general election. So in this short report we explored what a practical programme of debt cancellation might look like, with a focus on smoothing out disparities between adjacent generations and ensuring that the political policy of no future fees or loans is practically possible.

We could have been bolder in our initial suggestions. There is, for instance, a case for extending the jubilee to include maintenance loans.[4] After they shrugged off their

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[1] Dorling, D. and M. Davies (2018) *Jubilee 2022: Writing off the student debt*. London: Progressive Economy Forum.

[2] Augar, P. et al. (2019) *Independent Panel Report to the Review of Post-18 Education and Funding.* (CP 117)

[3] Though the proposed return of maintenance grants is very welcome and would reduce the (face value of) debt for students from poorer households.

[4] Although our Jubilee 2022 proposal only applied to tuition fee loans, we designed it such that students with maintenance loans would benefit more to ensure that the policy acts in a progressive manner. Under our proposals any repayments made before the policy is implemented are assumed to be repayments of the maintenance loan – those

former Liberal Democrat coalition partners, following the result of the 2015 election, the Conservatives abolished maintenance grants for the poorest students and moved all government higher education to an exclusively loan-based system. This is manifestly regressive and clearly a commitment for moving next to the full privatization of all tertiary education.[5] Labour plans to reintroduce maintenance grants and so would be advised in future to also consider maintenance loans as part of a student debt jubilee.[6]

In future work, we will examine maintenance grant reintroduction. We will also look at how we could change the repayment structure of student loans in the event of partial debt cancellation, in light of other feedback we received.[7] Here, however, we focus on the outright objections to the Jubilee 2022 proposal. We provide a defence of why heading in this particular direction is not just the right thing to do, but also a far more economically sensible and cautious approach than maintaining the unsustainable *status quo*.

For the most part, the objections that the proposal for Jubilee 2022 received did not focus on the ethics of debt cancellation *per se*, but rather on the virtues of the current system and the supposed folly of protesting against it. We were told, for example, that the current system is a "good deal" – indeed, that "the present student loan scheme… is one of the fairest pieces of legislation introduced in an otherwise barren landscape over the past 20 years" – and that the Jubilee 2022 proposal for reform "has no connection to economic justice".[8] Economic and social justice is, of course, at the heart of any proposal to reverse the part-privatisation of tertiary education in England and Wales; but there is still a great deal of work to be done to explain why this is so.[9]

with larger maintenance loans, who tend to come from poorer households, would thus gain more.

[5] Even before the abolition of maintenance grants, poorer UK students were more likely to leave university with more debt because the maintenance loan system had been made more and more regressive in recent decades.

[6] As we write, in summer 2019, it is currently unclear what the balance between maintenance loans and grants would be in a future Labour administration, but once this is known a debt cancellation schedule can be calculated to smooth out disparities between adjacent student cohorts. The optimal balance is a topic for a future paper.

[7] Another comment on our proposal was that we need to focus more on further and adult education. We recognise the need for reform and more funding in these areas, but reject the suggestion that we have to choose between further and other adult education and abolishing university tuition fees in higher education.

[8] See Peter Howard's (of Haslemere Surrey) letter in *The Guardian* (2018) "Let's have perspective in tuition fees debate", November 5.

[9] This report does not cover Northern Ireland because of the huge complexities at play there, nor Scotland where higher and tertiary education remains free at the point of delivery. It is, however, worth noting that the UK's third largest political party (the SNP) as

Here, then, we detail the flaws in our current higher education funding system and argue that paying for university education through general taxation is the superior option. Once these main points of political principle are resolved, we believe the argument for some debt cancellation programme follows on naturally. First, though, we outline how the current system works.

well as its second or at times first most popular (Labour) are both in favour of no fees and no loans which is, of course, the system most common across almost all of the continent of Europe. In the UK we do unfortunately have to confront more extreme pro-privatisation views more often than people in other European countries do. At some point we should ask in more detail why this is.

The current system

At present, full-time UK and EU students pay £9,250 per year of study. With a few exceptions (e.g. students studying for their second undergraduate degree) all of these groups are eligible to take out a tuition fee loan covering the cost of study, although this is not obligatory.[10] These are known as Plan 2 tuition fee loans, and they began with students who start(ed) their degrees in England or Wales in or after the 2012/13 academic year.

The interest rates charged on Plan 2 loans are calculated annually using that year's RPI (Retail Price Index, a measure of inflation expressed as a percentage) in the following way:

- From the origination date of the loan, until the April after the student leaves university, students are charged RPI + 3% interest on their loan and this sum is added to their loan so that future interest payments also include interest on the interest. The loans can grow to be very large.
- After the April following students leaving university, interest is calculated with reference to their current income. Anyone earning below the lower threshold (£25,000 as of April 2018) is charged annual interest equal to RPI on their loan. People earning above the upper threshold (£45,000 as of April 2018) are charged RPI + 3% interest. Interest for incomes between these thresholds is calculated in a linear fashion. Someone earning £35,000 would be charged RPI + 1.5% interest.
- The Secretary of State for Education can alter the terms and conditions of the loan at any time without need to seek the approval of parliament. Loan interest rates could be raised further. Loans can be sold off to private lenders and debt-collecting companies who could then be allowed to impose their own altered terms and conditions if the Secretary of State for Education so agreed.

The repayment structure is then as follows:

- Mandatory repayments start from the 6 April after a student leaves their course, and are calculated as 9% of gross taxable earnings above a certain threshold (£25,000, as of April 2018). Optional repayments on top of this can be made at any time, but can only be made by those with recourse to the wealth required to make such optional repayment (and thus avoid paying

[10] Note that as of May 2019 the UK government plans to increase the fees for non-UK EU students from academic year 2021/22 onwards and revoke their eligibility for funding according to a proposal made by the education secretary Damian Hinds. See: Parker, G. and A. Jack (2019) "Theresa May to face backlash on plans to charge EU students more: Move to apply same rates as other nationalities to study at English universities." *The Financial Times*, 28 April 2019.

interest). Former students in receipt of an inheritance from a relative could use this to help relieve them of future debt obligations.

- If a student is paid monthly or weekly, repayments are made whenever their gross monthly or weekly pay exceeds an equivalent threshold (£2,083 per month, £480 per week), *regardless of their total annual income.* Unlike with income tax, there is no rebate available to ensure that payments reflect annual income. Thus, a former student who managed to secure a few months well paid work, but was unemployed or in very low paid work for the rest of the year, will be penalized for not having earnt evenly over the year.
- Any remaining debt is currently promised to be written off 30 years after the April in which mandatory repayments are due to start (even if they do not in fact earn above the repayment threshold at any point up until then). Debt is also currently written off in the event of death or permanent disability. This is in contrast to some student loans in the United States which are passed on to family in the event of a student dying. However, the British loan terms can be changed in future without the Secretary of State having to consult Parliament.

Prima facie Plan 2 might look to some people like a progressive system – it seems that the better-off pay more, and that only those who can afford to need pay off their loan. But the fairness here is illusory.

Questions of fairness

Some criticism of Jubilee 2022 centred on framing the burden of student debt in terms of the total amount owed. So, let's consider repayments: the Institute for Fiscal Studies (IFS) estimates that the average graduate will in future make £48,600 (in 2017 prices) in tuition fee and maintenance loan repayments under the current system.[11]

£48,600 is a very hefty sum – £20,000 higher than the average for the 2011 cohort[12] – but it is claimed that the system is fair as the repayment burden is progressive with respect to graduate earnings. We debate this later. We will also return to the issue of intergenerational fairness.

The current system is certainly not progressive with respect to socio-economic background. Firstly, students from poorer households will depend on higher maintenance loans to live, especially following the abolition of maintenance grants in 2017, leaving them with higher debt. Secondly, students from the wealthiest backgrounds can avoid paying for their tuition entirely – their families pay up front. Furthermore, the families of those students are not taxed highly in England and Wales, so they receive greater inheritance in future and often also help from their affluent parents throughout their adult lives, because they live in countries in which so much has been privatized.

Free tuition for the privileged, fees for the rest

Analysis from the Intergenerational Foundation (IF) has found that over 10% of UK-domiciled undergraduates studying towards first degrees at English universities are 'self-funding' – that is, they pay their tuition fees up front without formal financial support or sponsorship from an organisation (such as an armed forces scholarship, NHS bursary or employee sponsorship).[13]

Almost none of these students will be 'self-funding' in the true sense of the word; few first-time students would have the *personal* means to pay £27,750 worth of fees up-front. Rather, in most cases these students will have their fees paid for by affluent family members. Then, after graduating, they will enjoy higher take home earnings, while their less privileged peers are saddled with average total repayments of just under £50,000.

[11] Belfield, C. et al (2017) *Higher Education Funding in England: Past, Present and Options for the Future*. London: The Institute for Fiscal Studies. (p. 10)

[12] Again, in 2017 prices.

[13] Ehsan, M. and D. Kingman (2019) *Escape of the wealthy: The unfairness of the English student finance system.* London: Intergenerational Foundation.

By paying fees up front, the richest avoid paying interest on the cost of study. Meanwhile the average English and Welsh student accrues £5,800 in interest over the course of their studies alone, before they can even begin to repay.[14] The grounds for charging students real interest on their loans is shaky to say the least, but proponents of the system defend the practice in that it means higher-earning graduates pay more for their education – a supposedly progressive feature. The fact that the most privileged 10% of students, whose families take as much as 40% of all income in the UK, can circumvent this surcharge and avoid the burden of repayments entirely undermines that argument.[15]

Do higher-earning graduates *actually* pay more?

Even if we ignore the students 'privileged' enough to avoid student debt and restrict our attention only to students who take out loans, and look at graduate earnings instead of socio-economic background, it is not at all clear that the current system is progressive. Higher-earning graduates pay off their loans more quickly, and so they can end up paying less than their lower-paid counterparts for their education because they avoid being charged as much interest. Researchers from London Economics estimated average student loan repayments by profession and gender, and confirmed the existence of these regressive effects in the current system.[16]

Take male social workers, nurses and finance professionals as three example groups; all are taken to graduate with the same amount of debt, of around £44,000.[17] The social worker and the nurse will never fully pay off their debts (including interest), whereas the finance professional will do so in approximately 17 years.

The social worker is the lowest earner – he accrues a lot of interest, but much of this is written off, so he pays £46,000 in total. The finance worker only accrues £11,000 in interest because of his speedy repayments, and so his total repayments equal £55,000.

The nurse finds himself in the 'squeezed middle'. While he has £3,000 of debt written off at the end of the repayment term, he has also accrued £18,000 in interest because he did not pay his loan off as early as the finance professional. As such, his total repayments equal £59,000, some £4,000 higher than his far richer counterpart in The City.

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[14] Belfield, C. et al (2017) *Higher Education Funding in England: Past, Present and Options for the Future*. London: The Institute for Fiscal Studies.

[15] Dorling, D. (2018) "Peak Inequality." *The New Statesman*, July 4th

[16] Halterberck, M. and G. Conlon (2017) *The impact of student loan repayments on graduate taxes*. London: London Economics.

[17] All values in 2017 prices, discounted to present values.

The unfairness of 'Plan 2' is starker when you consider loan repayments as a percentage of income. Over 30 years, the social worker and the nurse pay 3.2% and 3.6% respectively of their income over the repayment term towards servicing their student debt. Our financier, on the other hand, is only set back by 2% of his income.

It is important to note here that this analysis takes the lower threshold on graduate repayments to be £21,000 (in 2017 prices) and increasing with average earnings from 2021. Since then, the repayment threshold has increased to £25,000, to the slight benefit of lower earners. But it can be lowered again (or equivalently fail to be raised in line with inflation) affecting not only prospective students but also those who have already taken out the loan. The Government has an incentive to do this to make the loans more suitable for private sector sale, as we explain in the next section. Incidentally, if the Government takes on the Augar Review's recommendations, the repayment threshold will be lowered and the term extended, increasing the repayment burden of poorer graduates (although this will only affect those entering university from 2021/22 onwards).

Still, the London Economics analysis is extremely relevant.[18] It shows the that the current system is not uniformly progressive with respect to graduate earnings – and that no matter how it is tinkered with, there will always be a 'squeezed middle' after which point the richer you are, the less you pay. Moreover, the above analysis only covers mandatory repayments. The richer (by family or job) will have both the means and the incentive to pay off their loans faster than is mandated, exacerbating this regressive aspect of the system.

Retrospective changes to loan terms and the privatisation of the loan book

In 2010, the Coalition Government said that the repayment threshold for post-2012 students would be £21,000, and that from April 2017 this would increase with average earnings. The Conservatives then went back on this promise in October 2015 and said that they would freeze the threshold at £21,000 until at least 2021.

Freezing the repayment threshold (i.e. lowering it in real terms) is a regressive move. It increases the repayment burden of lower-earning graduates and reduces the public subsidy they receive through end-of-term loan write-offs, while encouraging higher-earning graduates to pay off their loan more quickly and avoid interest charges.

There is an obvious injustice to retrospectively changing the terms of a loan in a way that hurts the worst-off – in this instance, the public outcry was enough such that the Conservative government eventually agreed to raise the repayment threshold to

[18] Halterberck, M. and G. Conlon (2017) *The impact of student loan repayments on graduate taxes*. London: London Economics.

£25,000 in April 2018. But there is nothing to stop the Government acting in this way again. When asked before the Treasury Committee about the move, Chancellor Philip Hammond predictably cited the need for fiscal consolidation as a motive, but added that "it is also about preparing the student loan book, ultimately, for sale as an asset".[19]

Therein lies the rub. The privatisation and subsequent securitisation (making them a profitable commodity) of student debt brings together a perverse cocktail of incentives. The present government, in its attempts to appear fiscally prudent, has an incentive to sell student loans as this leads to a short-term improvement in the headline public finance figures – even if the sale ultimately results in a long-term loss.

Meanwhile, the private sector seeks to profit from the purchase of these loans. The result is that the Government may retroactively change the repayment terms of student loans and sell them off below their value in order to serve the profit motive of the financial sector or to meet its superficial budget targets, and not to benefit the public interest.

Real interest on loans

There are two warring principles behind the design of the current system. The first is that the cost of university education ought to be privatised, borne by the individual. The second is that our higher education system ought to be funded in a progressive manner, such that those who earn more, pay more. The result is an unsatisfactory fudge between the two.

Take the interest rates charged on loans, for example. Even before students finish their course, they accrue an average of £5,800 of interest *in real terms* on their debt.[20] How can we justify charging students such high rates of interest (currently over 6%) for accessing higher education?

Defenders of the system argue that, contrary to appearances, charging such high rates makes the system more progressive. Lower earning graduates are likely not to pay off their 'principal' – i.e. their debt excluding interest – and so they are unaffected by high interest rates. Charging real interest, in effect, means that higher earning graduates pay more, and thus is a 'progressive measure'. But this argument is flawed on a number of grounds.

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[19] Brodie, C. (2016) "Chancellor says the retrospective hike in student loans is to help sell them off." *MoneySavingExpert.com,* 13 December.

[20] Belfield, C. et al (2017) *Higher Education Funding in England: Past, Present and Options for the Future*. London: The Institute for Fiscal Studies.

First, the interest rate and repayment structure of the debt mean that middle earners end up paying more than the best off. If the repayment threshold is frozen again to make the student loan book more attractive to private sector buyers, this further strengthens the regressive impact of interest rates.

Second, charging real interest rates incentivises higher earners to pay off their debt more quickly, meaning that they can end up paying less than their middle-earning peers. Indeed, students from the wealthiest families can circumvent interest charges entirely by having their families pay their tuition fees up front, meaning that they pay no such subsidy at all.

Third, students with larger maintenance loans, likely to be from poorer households, will accrue more interest on their debt, as the same rates are charged across tuition fee and maintenance loans.

It is true that students with larger maintenance loans will also be *less* likely to pay any interest on their loans; the larger the debt taken out, the more likely it is that the debt will be written off before you pay any interest. Proponents of the system use this to make it seem like interest rates on maintenance loans only affect the very highest graduate earners.

They are wrong. Taking the London Economics' estimations of student loan repayments by occupation and gender, we see that male nurses with a maintenance loan will pay thousands of pounds more *in interest alone* than nurses whose parents funded their living expenses while at university.

There is a more fundamental objection: at the end of the repayment term, students have any outstanding debt written off. We can think of this write-off as a subsidy. Some of this subsidy is borne by the public, as the government raises taxes or issues bonds to cover the shortfall. But much of this subsidy comes from the interest paid by other graduates on their loans; our example nurse will pay £15,000 in real interest on top of the cost of their education.

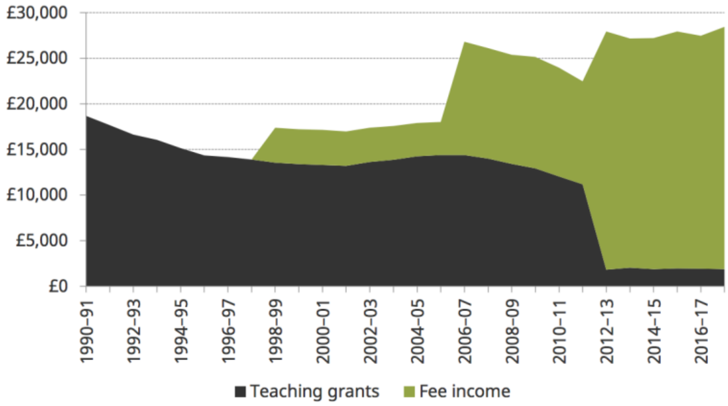
The justification for this is extremely murky. Why should the burden of this subsidy be disproportionately borne by middle-earning graduates? Why should young people be charged over and above cost to access higher education so that older generations, many of whom attended university for free or at great public subsidy, can be taxed less?

Thus far we have focussed on *intragenerational* inequality. But the above makes clear that our current tuition fee system leads to significant *intergenerational* inequality too.

Intergenerational justice

Over the past two decades, the cost of higher education has increasingly been borne by individual students, as shown by the graph below – teaching grants come from central government, while the majority of fee income comes from students (the rest coming from public subsidy).[21]

Figure 4.1. University resources per student per degree for students starting between 1990–91 and 2017–18 (2017 prices)



What this graph shows is that students attending university before 1997 had their university education entirely paid for by older generations through the tax system. The understanding that education is a public good was part of the social contract. But now, the beneficiaries of this education are no longer under the corresponding obligation to pay for the education of younger generations through their taxes. This is part of, and compounds, a broader fracture in the social contract. Today's young people are likely to have a worse standard of living than their parents – both those who go to university and those who do not.

Indeed, the design of the funding system and corresponding accounting structures threatened to exacerbate this intergenerational inequality even further. When student loans were 'reformed' (and tuition fees tripled) in 2012, the 'reformists' already knew that most students would not be able to fully pay off their massive debts over the course of their working lives.

For the purposes of jazzing up the national accounts, however, the Government acted as if they will get all this money back. Why? So that the shortfall between the Government's spending on higher education and expected student loan repayments wouldn't show up in the deficit figures – that is, until the loans were written off *en masse* 30 years later. For the cohort of students starting their courses in 2017, this shortfall is estimated to equal 45% of the total value of the loans. The UK government

[21] Belfield, C. et al (2017) *Higher Education Funding in England: Past, Present and Options for the Future.* London: The Institute for Fiscal Studies. (p. 27)

falsified the national accounts by pretending that all student debt would be repaid in future when it knew it would not. The size of the national debt and deficit was thus greater than declared.

Were these accounting practices allowed to continue, the general taxation needed to cover this shortfall would likely not have fallen on the 'free tuition' generations – many of them will have stopped earning in 20-30 years time – but on those who have paid (often above cost) for their education.

Thankfully, the ONS wised up to these tricks and has changed the treatment of student loans in the national accounts. It estimates that these changes will add approximately £12bn to the 2020 deficit, threatening the achievement of the Government's fiscal targets. Still, the fact that it took our national statistics authority 6 years to address this issue is testament to how the complexity of our student finance system obscures the injustices within 'Plan 2'.

Funding through general taxation

We have asserted that the current system of funding is unfair, and indeed proponents of tuition fees may cede some of the above points. But they would argue that abolishing tuition fees would be even less fair.

Their argument goes something like this. At present, university students are disproportionately drawn from wealthier households (largely because of extreme inequality in the educational outcomes of our primary and secondary education system, especially in comparison to other European countries). Why should posh children's university education be subsidized by 'the rest of us', especially when these children benefit financially and otherwise from their degrees?

The problem with this argument is that it both misrepresents UK university students (most of whom are not from very posh backgrounds) and misunderstands how progressive taxation works. If tuition fees were to be funded from progressive general taxation, the highest earners (the vast majority of them graduates) would contribute the most – far more than they do under the current system, where the majority of the burden is borne by middle income younger generations.

We are often asked not to think of student debt as a burden, but rather as a quasi-graduate tax. There are important differences between a tax and our current system, but the metaphor is useful for cutting through the complexities of our higher education system and conceptualising what abolishing tuition fees and implementation of Jubilee 2022 (possibly as part of an even wider programme of debt cancellation) would mean. Funding tuition through general taxation simply shifts the 'tax burden' of higher education away from the middle-earning younger generation, and towards the highest earners of all ages – the majority of whom, again, will also be graduates.

Of course, the fact that a small minority of university students, especially those who gain so many of the few places at our 'prestigious' universities, are disproportionately from very 'privileged' backgrounds is a severe problem, and serves to entrench social and economic inequalities. Abolishing tuition fees will not solve this problem (and we reject the idea that universities would *necessarily* have to limit their intake if tuition fees were abolished). What 'unprivatising' tuition fees *would* do is make sure that the higher education system is run in the public interest.

Once defenders of the system run out of fairness-based arguments, they will turn to a second kind of criticism – that abolishing tuition fees is not 'practical'.

Questions of practicality

We can afford it

Predictably, and as with any progressive policy proposal, advocates for free university tuition are told that such a scheme would be “unaffordable”.

We reject this framing as disingenuous. It is an attempt to disguise a question of fairness – of who should pay for higher education – as a question of what is possible. The task is not the introduction of a new public service, which would involve the redirection of real resources. The question of whether we can afford higher education has already been decided. Funding university education through general taxation is a progressive shift in the burden of payment for existing public services.

Similarly, we are told that abolishing fees and implementing Jubilee 2022 would require an eye-watering increase in taxes. But this is misleading. Insofar as student loan repayments under the present system can be considered as a quasi-graduate tax, all that is needed is a *change* in taxation – to make it more progressive – and not an increase.

Predictability of revenue

One key practical advantage of the ‘general taxation’ model of higher education funding is that it is easier to budget for the costs of higher education. To see why, we return to the ONS’s recent decision on how to account for student loans.

Everybody knows that a large portion of the student loan debt will not be covered by graduate contributions. The IFS estimates the size of this ‘public subsidy’ for the 2017 cohort to be 45% of the total debt.

Default is designed into the system. But until recently, the Government has acted as if these loans will be paid off in full for the purposes of their national accounts. Student loans have been recorded as financial assets on the Government’s balance sheet with a value equal to the amount loaned, not to expected repayments. This has allowed the present Government to spend public money on higher education without it showing up in present-day spending figures, even though this compromises the Government’s long-term fiscal position. As mentioned above, the ONS has wised up to this trick and suggested changes to the way we account for student loans, taking into account the expected public subsidy.

The problem is that there is a lot of uncertainty around the size of this subsidy, as it depends on the behaviour of graduate earnings and repayments over a 30 year timespan. The IFS notes that a fall in graduate earnings of just 2% increases the size of the public subsidy by approximately 50%. Notably, one would expect graduate earnings to have a higher variance than national income more generally.

This is important. We might decide that we do not want to fund spending on higher education entirely from current revenue. We could partially fund tuition fee spend through borrowing – as the Conservatives do under the current system – in light of the fact that spending on higher education is an investment in the productive capacity of the economy. The general taxation model of funding, unlike any tuition fee/graduate contribution system with an unpredictable amount of public subsidy, has the advantage of being clear from the outset about how higher education will be paid for over time.

Public funding also means that any subsidy can be better directed. The Government, and by extension taxpayers, pay a substantial amount towards the cost of higher education through the public subsidy. But the allocation of higher education funding is not determined by the public – rather, it is the outcome of the market for higher education, whereby universities compete for student debt. Not only is this an example of a democratic deficit, but also it results in some problematic behaviour from universities. The National Audit Office writes:

> *"...higher education has some features in common with complex financial services, due to the complexity of the product, uncertainty over long-term outcomes, and the financial commitment of a student loan. Where financial products are complex and retail consumers may be vulnerable to making poor choices, the Financial Conduct Authority expects financial services firms it regulates to disclose clearly the risks of such products to potential customers, to minimise the risk of mis-selling or sale of unsuitable products.* ***There are limited comparable requirements in higher education, however, despite strong financial incentives for providers to attract as many students as possible. Prospective students have very little access to independent advice****."*[22]

The marketisation and privatization of universities has created many new injustices and economic uncertainties. We have also seen an accompanying *financialisation* of universities – an increase in the influence of the financial sector. We briefly summarise why funding higher education through general taxation and reversing these processes would be the most prudent and sensible policy in the next section.

[22] Hale, T. (2018) "The many problems with a market for higher education." *Financial Times*, 26 January.

Marketisation and financialisation

As the costs of higher education have been shunted onto individuals and their families, a marketplace has opened in the higher education sector, in which institutions compete for prospective students – mostly children at their time of choosing – and their fees. To pay these fees, young people (whose parents cannot afford to pay their fees up front) must undertake a significant and complex financial obligation. Indeed, if universities fail to attract enough students, this threatens their financial solvency and leaves them vulnerable to shocks. Last year, three universities were brought to the brink of bankruptcy by falling numbers of 18-year-olds and tight immigration controls.[23]

Financial fear and economic insecurity mean that universities end up having to aggressively market their courses. The issue is that higher education is not somewhere where market mechanisms work well. Tom Hale writes in the Financial Times:[24]

> *"...the marketisation process also encourages students to assess the value of a degree, but the unique nature of the credit available to them profoundly distorts that calculation, even if the 18-year-old in question has inexplicably mastered all varieties of discounted cash-flow modelling.*
>
> *Because students are paying for tuition through government loans, which are repaid through an effective marginal tax rate on their future earnings, they are unlikely to discriminate between prices in the way that consumers typically do."*

Indeed, the things that attract students may not be things that the public wants universities to spend money on. Matt Waddup, Head of Policy at the Universities and Colleges Union, notes that universities are spending money on flashy facilities over teaching staff – presumably the former works better as a marketing device.[25] If we returned to a system where universities were publicly funded, then we could act to

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[23] Vaughan, R. (2018) "Three UK universities on the brink of bankruptcy and more reliant on short-term loans 'to survive'." *inews.co.uk*, 1 November.

[24] Hale, T. (2018) "The many problems with a market for higher education." *Financial Times*, 26 January.

[25] Rhodes, D. (2019) "Number of English universities in financial deficit increases." *BBC News*, 9 May.

ensure that universities' spending was in the public interest – this would include placing limits on excessive Vice-Chancellor pay.[26]

To supplement their volatile fee income, and to raise money for showy projects, universities have been turning to international financial markets more than ever before. In the last academic year, lending to the higher education sector totalled £10.8bn – triple the level of a year earlier.[27] But what happens when universities cannot pay their debts? Last year, Sir Michael Barber (Chair of the Office for Students, the sector regulator) talked a tough talk, telling universities that the OFS would not bail out higher education providers in financial difficulty because they had spent too much money or failed to attract enough students – before overseeing a £900,000 bailout weeks later.[28]

How stupid were we, in hindsight? If you let a university fail, you compromise the education of thousands of students, and may lose an institution of wider historical and cultural importance. For many towns, this would have a devastating impact on their local economy. Panic among lenders to universities could trigger a financial crisis across the sector. Indeed, it is inconceivable that the government would let a major, Russell Group university go bust. But if you *do* offer a bailout, you signal to universities that the government will back them up if they get into trouble. Then you end up in a situation of moral hazard, reminiscent of the Global Financial Crisis; if universities, like banks, recognise that they are too big or important to fail, they are free to undertake risky borrowing in the knowledge that they are insured by the taxpayer.

The other entry point for financial markets into UK higher education is through the sell-off of student loans. As noted above, the intended sale of student loans to the private sector will result in students and/or the taxpayer losing out. But there are wider issues too. The FT's Tom Hale writes: "One of the lessons of the last few decades is that global transformations can be mediated through obscure and little-understood financial markets." The securitisation of these complex financial assets could very well be the seed of the next financial crisis.

[26] Dorling, D. and B. Hennig (2017) "Let's say Auf Wiedersehen to England's embarrassing tuition fees." *The Guardian*, 19 December.

[27] The Times (2019) "The Times view on university borrowing: a risk to the higher education sector." *The Times*, 3 January.

[28] Coughlan, S. (2018) "University given £1m bailout from watchdog." *BBC News*, 16 November.

Conclusion

A huge mess has to be tidied up before the English and Welsh University system as we know it falls apart, and before the present extreme financial injustices are increased even further. Abolishing tuition fees remains the fairest and most simple mechanism to achieve this. But we must do something about the existing student debt in order to make this work. In short, what needs to be promised in the manifesto, to be introduced upon the election of a Labour government is as follows.

Labour should introduce a cap on maximum tuition fee loan repayments for first-time, undergraduate degrees: Jubilee 2022 – named after the year in which it will most likely 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. 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.

The £12,000 figure comes from three years of pre-2012 tuition fees, plus interest charged at the levels which are known to have been levied on those pre-2012 loans. 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. Full details of the cap can be found in the original Jubilee 2022 report.[29]

[29] Dorling, D. and M. Davies (2018) *Jubilee 2022: Writing off the student debt*. London: Progressive Economy Forum.