HEPI/CDBU seminar, Jan 16

1. I speak here as someone who retired from running a university more than twenty years ago and so have been observing from outside the hurly burly. I also have the advantage of not being an economist and so can express my thoughts as from naïve observation. But as a mathematician I set value on simplicity. I think that before turning to the issue of today -fees - it is worth addressing the sad history of the marketisation of universities. The consequences were entirely predictable. This is clear from the title of the book published with colleagues in 2019 which means we were writing it in 2018. The title – English universities in crisis – shows it was obvious at least six years ago.
2. The transfer of funding from grant plus fees to basically fees alone was a big enough shock but at least the Browne committee – charged with advising on this – recommended some alleviation of the predictable downside. At the time funding per student was around £6000 –- and funded by £3000 in grant and £3000 in fees. There was additional funding for high cost courses which I will set aside. Browne recommended that the £3000 in grant be transferred to fees and universities could charge up to a maximum of £9000. But anything above the £6000 threshold should be taxed to put a bit of grit in the system. He also put in a number of other safeguards. In particular there should be a cap on numbers and there should be a minimum qualification for accessing a loan. This was of course the situation when tuition was free – grants weren’t available just because you had a place. Government implemented the proposals but rejected the safeguards in the belief that markets would provide the necessary discipline.

1. The bonanza following this 50% increase in funding per student led to a mad rush for students on the assumption that the good times would roll. The massive building programmes and increasing regulatory requirements led to high debt, increased administration and inescapable higher fixed costs – for example maintenance of larger estates and interest on debt. The changes also led to the need for a regulatory body which cost money in itself but also placed another burden and cost on university administrations and teaching staff. The twist to the tail was the uncapping of student numbers. The impressive and highly successful marketing of the Russell group – cooked up at breakfast meetings in the Russell Hotel - meant that they could hoover up students from those not carrying the self -styled label as ‘elite’ – a label taken up by journalists and government as a lazy reference. This has meant that those universities now deemed lower in the pecking order have reduced income from home students. And the twist was that the fee was not increased for inflation. But the same fixed overheads –based on the pipe dream that the good times would roll - don’t go away and overstaffed and highly paid administration is difficult to dismantle. And removing academic departments does not necessarily cut the mustard – it simply means that the same fixed costs have to be covered by fewer departments, putting the next in line in a more exposed position. The only competition was how low you could set entry requirements or how many firsts you could offer in order to bring in students.
2. It wasn’t long before the chickens came home to roost and feast turned to famine. As the fees were not increased there was an increase in the recruitment of overseas students to make up income. Ironically this added to the immigration figures. So the failure of government to provide adequate funding for universities adversely affected a high profile government objective to reduce immigration numbers with knock on effects both political and economic. It is argued that overseas students provide a boost to local economies but local public services don’t benefit given the caps on council tax and failure to increase local grants we know about.
3. So a 50% increase in fee income has not led to an improvement in the student experience or the working conditions of academics, quite the reverse. But hang on. Suppose a university had decided to keep student numbers the same and spend it on more academics and perhaps a little upgrading of facilities. The improvement in SSRs, in entry tariffs, in student satisfaction and in research output would have sent it up the tables and enabled recruitment of high- quality students and given academic time to search for talented students amongst unrepresented groups. It is worth noting that an inflation uplift of the £6,000 pre Browne level to today is pretty well near the current £9,250. So such a university would only now begin to feel the pinch but would be in much better shape.
4. Let me turn now to the nub of the current issue – fees. Wherever the blame lies there is no doubt that without serious action like closure of some universities or mergers, fees will have to rise or there will have to be reinstatement of some grant.

 7. I am assuming that if current levels of participation are to

 be maintained free tuition is off the table and there will

 continue to be a significant fee charged. I want to address

 the question of fairness and how the repayment system

 might be reformed.

1. The design of the loan system has led to an entirely predictable unfairness between graduate cohorts as the rules of the game changed. And the public debt rises inexorably. ONS statistics show the debt from writing off loans is currently running at around £120bn and has been averaging around £!0bn per year over the past five years. The total debt arising from loans that are projected to be paid back runs at a much higher rate but that is treated as net worth because they ‘will’ be paid back.



(Source ONS)

 9.At an individual level there is a built-in inequity between

 graduate cohorts. It might be argued that there will be a

 difference in debt between student cohorts if the level of

 fees changes but the level has changed only marginally.

 The inequities have arisen because of the changes to the

 interest regime and the write off dates. This is grossly

 unfair.

10.The irony is that interest charges simply add to the public debt all the while they exceed repayments and even when incomes rise debt is paid off more slowly because of the large accumulation of debt arising from the compounding of interest particularly in the years before the earnings threshold kicks in with no inroads into the debt. And of course there is the further irony that the public debt itself accrues interest to be paid from the public purse. It doesn’t matter that it is some strange category of debt that, quote, ‘will be paid off’, it is in the meantime debt which has to be serviced. The taxpayer is paying interest on the interest charged to graduates – who are therefore paying twice.

11. These two problems – unfairness between cohorts and increasing public debt – can both be addressed by the simple policy of zero interest and I mean zero – not set at RPI. Public debt would rise only as an increase in graduates in the system or an increase in fees but that increase would be abated by debts being paid off more quickly. The number of graduates paying off debt would soon balance new ones coming into the scheme. The write off of debt after whatever period is decided (which is itself a moveable feast adding more intergenerational unfairness) would be minimal. There remains the issue of the interest being paid on the public debt not being offset by interest being paid by graduates, but with more rapid repayment of debt and practically no write-off, the cost would be marginal and worth the benefit, and certainly be better for students than raising fees under the present system.

1. The question then arises of deciding on the mechanism for repayment. At present there are two fingers in the pie – the Student Loans Company and the Inland Revenue. This is a typical British muddle. One outfit distributing the loans on behalf of the public purse, another collecting money through taxes and passing information back to the first to keep records of repayments, interest charges and amounts outstanding. All this comes at a cost.
2. A simpler option would be a straightforward graduate tax, but with some variation on models previously considered. First, instead of a lifetime tax as in most models of a graduate tax, the surcharge would cease once the loan is repaid. A lifetime tax is simply a system for charging for the privilege of going to university and runs counter to the (admittedly failed) notion of creating a market in which different universities charge different fees. It is a selective form of general taxation. There is more logic to stopping the surcharge once the loan is repaid. A second variation would be to calculate the surcharge on the tax bill of the individual rather than the salary. This would be more progressive. In either case higher earners would pay off their debt sooner than others. But this is no detriment to lower earners because with zero interest they are simply being given longer to pay. The faster rate of repayment from higher earners would be a considerable advantage to the public debt as would the considerable reduction in the £10bn per year write offs arising from low earners. And in any case higher earners are paying more ordinary income tax.
3. There remains the issue of how to administer the system. In the era of free tuition and maintenance grants money was channelled through Local Education Authorities but it could equally well come through the Department for Education. This would require extra resource to the Department but it would be a non-judgemental straightforward administrative task (unless means tested maintenance grants were reintroduced – an issue equally as important as fees) and the Student Loans Company could be disbanded at considerable saving. In the no fees era student eligibility was based on A level results, now it is based on acceptance by a university whatever the grades, so the process would be straightforward since no judgement for eligibility would be required. Records of loans issued would be passed to Inland Revenue who would keep a running total of amounts outstanding – a simple matter of subtraction until zero is reached without complications of interest repayment or political intervention to decide the interest rate. The role of the Department for Education would be only the distribution of fees and maintenance loans and passing these records to Inland Revenue. Even this could be bypassed if there were a cap on student numbers at university level. Funds could then go direct to universities for those students applying for loans and individual student debt recorded direct to the Inland Revenue on leaving university – with or without a degree. It would be open to retain the Student Loan Company to distribute the loans and send records to Inland Revenue but that would be far less costly than its current responsibilities.
4. The intergenerational unfairness of the current system would be confined only to an increase of fees and not the terms of repayment. It would then be possible to negotiate with universities a ‘fair’ fee under the present situation and then an agreement to increase it at the rate of inflation giving some certainty for planning and acceptance by students. Fee increases would be more acceptable to students under a no interest policy. Maintenance loans - an issue of as much or more importance as fees - could increase at the rate of CPI. There remains the question of whether any financial help to universities made possible by such a reform and fee increase should be targeted in some way to improve the system as whole rather than following student numbers with no influence on how the money is spent.
5. But even without such a more radical proposal, if a ‘fair’ increase in fees could be agreed with subsequent inflation linked increases, universities would have to live with it and a policy of zero interest would make an increase more palatable to students and remove inter-cohort inequities.

Norman Gowar

(Principal, Royal Holloway, University of London, 1990 – 2000)