The Dearing Report 25 years on: Student loan reform in U.K. - Did it work?

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**How could ICL work better? Politics of public/private**

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**[opening slide]**

[thanks as appropriate]

As the final speaker on the programme, I want to look forward to where the ICL system in England will go from here. In my judgment the underlying principle of income contingent loans-based tuition are widely understood and supported: shared public and private funding, the student benefits and the student ultimately pays, no cost barrier at point of entry, actuality and timing of repayment determined by individual capacity. But the mechanisms are not well supported. The present system works well for *no-one*: not students, not graduates, not higher education institutions, not government. It certainly doesn’t work for Treasury. The RAB charge is like a bull in the China shop of public finances. The accumulated value of student debt fluctuates wildly according to macro-economic shifts and tweaks in the system. A sudden tweak to buy votes can detonate all reasonable forecasts. Repayment thresholds, interest rates and fee indexation have all been tweaked and it seems only a matter of time before the standard fee is cut overnight to contain costs, throwing university incomes into chaos with differential effects across the system.

For individual students and graduates the system provides less certainty and predictability than it could and it should. The headline fee is also high relative to other tuition systems across the world, and relative to living standards which have stagnated and can be expected to stagnate in future. In its present form the system is always vulnerable to politicians doing a Cobyrn and reducing the cost burden on students by transferring it to institutions, wiping out the one clear gain of the 2012 system – its shoring up of university finances and quality, including the institution-based conditions that support project research. So where are the advocates for the system as presently designed? It is always teetering on the edge of implosion. We have become used to this, but we shouldn’t. There’s a lot at stake. There will always be tweaks, but the element of short-termism and risk in the ICL system in England is too high. This is because not just the economics but the politics are not right. My argument is that what needs to be addressed is the broader political settings, the public/private balance and the nature of the implicit social contract that underlies higher education.

**[Is incremental reform of tuition in England the only option?]**

We have become used to the idea that the only option for reform is tweaking one or more of the constituent elements of the system, measures that do not get .to the root of its political problems. The election of a Labour government in 2024, which must be reckoned as better than a 50 per cent chance, allows us to think about a system reset and reboot. It allows us to remind ourselves that there are a broad range of political economic configurations of higher education across the world, and the quasi-markets in Quadrant III in the slide that are favoured by Anglophone governments vary in the extent to which they take in elements from social democracy in Quadrant II or the pure market in Quadrant IV. A new government with a remade base of political support has a window of one to three years in which substantial reform is possible. This allows Labour not only to move part of the way back to the pre-Cameron balance of public and private goods in higher education, but to do so in the context of a redesigned tertiary education system. To lift FE and apprenticeship and integrate them more effectively with higher education requires money of the kind that a restructuring of the tuition loans system can bring onto the agenda.

**[The 2012 ICL system]**

David Willetts was a pro-university, pro-science and pro-culture Minister and the higher education is forever in debt to him for implementing an ICL system that triggered a major flow of additional resources that shored up the sector. The four leading universities in the Russell group benefitted disproportionately, lifting their position on the world scale vis a vis their competitors in the US. The cushion created by the extra flow of resources made it possible for the sector to handle successive shocks: a half decade near freeze in the growth of international student visas, Brexit, and the freezing of the level of tuition. At the same time the tuition level was set too high, the RAB charge accumulation was too large and unpredictable, and the nominal 100 per cent individual funding of the non-STEM non-medical student places undermined the principle of shared public and private cost and benefit that had underpinned Labour’s ICL and made it politically saleable. Increasingly the £9250-based ICL system has become seen as a policy problem not a policy solution.

**[What does 100% individualised funding tell us?]**

What does the principle of 100 per cent individualised funding tell us? For it is this principle, the wholesale surrender to the claim of solely private benefit, ‘no such thing as society’, the complete dissolution of HE into the market principle, that the student and the public see when they look at higher education. Not the shared public/private funding implicit in the subsidisation of free access, delayed repayment and non-payment by low income earners.

First, the individualised public goods, the profound benefits of higher education for individual students that are not captured in earnings and rates of employment - immersion in knowledge, self-formation and personal growth, campus life - are of no value and consequence in the higher education system. They are unfunded and ignored, provided if they are provided at all, only as incidental outcomes of the private market transaction. The political conclusion for students is that they should understand and experience higher education in the narrowest possible terms. Nothing else matters. And institutions should focus only on graduate jobs and earnings, except to the extent necessary to entice students to sign up as consumers. And that is more effectively done not by providing them with a rich environment for self-formation and growth, but by focusing on institutional prestige in the rankings, and through marketing. Marketing the service is cheaper than lifting its quality.

Second, the many collective public goods generated in higher education, including its lifting of the threshold of social, scientific and technological literacy, combined public health, the economic and civic building and strengthening of cities and regions, the fostering of active and responsible citizenship and political connectedness, the fostering of cultural flexibility, social tolerance, international understanding and so on – all attested repeatedly in research as outcomes of higher education - are likewise unfunded, and hence they do not matter. The political conclusion for the public is that only individual students and graduates benefit from higher education. The public as a whole does not benefit. Those who do not attend higher education gain nothing, except perhaps a trickle down from funded research, and the subsidisation of the right of younger members of their families to access the system.

**[Why should the public fund unpaid tuition debts when the public good principle has been evacuated?]**

The principle of 100 per cent private funding and private benefit evacuates the public good in the system. It junks the longstanding implicit social contract, whereby higher education is seen as a system of common institutions that work for the good of the community now and in the future, like the NHS or national security and defence. It junks the idea of higher education as a public benefit, a public asset, a public responsibility and publicly accountability. A shared public and private compact on tuition would allow all that to be preserved. The 100 per cent ideological surrender to the market undermines higher education long-term. With the public good principle gone, political support for the subsidisation of the loans scheme must become increasingly unstable over time.

**[What could labour do?]**

The solution is to establish a new and openly declared balance between private costs to the student, and public subsidies. As you know, assigning an economic value to public good externalities is essentially assumption-driven. It is arbitrary. The calculations that would underpin a new balance between private and public cost are political calculations not economic calculations. The point I am making is that this move to the economic and political centre is a win-win in several ways:

* It is win-win for Treasury to shift part of the public subsidy from unpredictable and unstable loan debt to predictable direct subsidies of student places, and to markedly increase the overall proportion of student debt that is repaid
* It is win-win for higher education to stabilise its funding and its social compact with the public and to diminish the threat of headline reductions in fee levels
* It is a win-win for students and graduates because it lowers the size of the annual tuition charge, lowers the size of the intimidating prospective debt burden at point of entry and diminishes lifetime repayments.

**[Tuition reform 2024]**

You may argue that a restored direct subsidy of every student place would be vulnerable to Treasury cuts. But no more so – and perhaps less – than the present system is vulnerable to arbitrary cuts to tuition levels in order to contain the accumulating student debt.

The example of a better private/public balance is there in the Australian system. It has suffered numerous tweaks and will continue to do so, but the underlying political conditions have been sustained. Its headline fees vary by discipline but are significantly less onerous, less intimidating, than in England. The private proportion of costs has risen since 1989, but the system has maintained the principle of shared public and private benefits and costs with which it began, and secured the acceptance of institutions, the public and the students.