

# UK tuition fees: balancing the costs

Blog post by Head of UK Leo Ringer, 20 July 2017

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The UK debate about tuition fees for university students can be seen as a triangulation of three sets of costs - private (to the graduate), public (to the taxpayer) and political (to the policymaker). The allocation of cost between the three actors has always been uneasy, and when the tension becomes unsustainable, change follows. The balance is once again shifting - the political cost of the status quo balance between public and private is growing quickly. If it becomes unbearable for policymakers, the rebalancing of cost back towards the state from the individual is the most likely outcome.

The last decade has been characterised by a transfer of cost from public to private as the state has shifted the burden of funding fees onto the individual graduate. A consensus formed that the balance had been unduly stacked in favour of the student to the detriment of the taxpayer. Redressing this balance has been accompanied by spikes in political cost, first for the Labour government when fees were introduced, again when they rose to £3,000 and subsequently for the Coalition when fees rose to £9,000.

The assumption has been that, with the political “£9k bill” paid, largely by the Liberal Democrats, the system was unlikely to generate new political cost without substantive policy change. Three things have rendered this assumption invalid.

The first, and the trigger cause, is that Jeremy Corbyn has pledged, with varying levels of clarity, to “tackle” fees - widely interpreted as a promise to abolish them. With support from 40% of the electorate, this puts a fee-free world back in the centre of the UK discourse in a way it has not been since their advent.

The second, and an underlying cause, is that the private financial consequences of a £9,000 system have become more fully appreciated. The consensus view now seems to be that the level of private cost in the system is unjustifiable and unsustainable. Several factors have driven this, including the growth of the interest charged on loans, and the entry into the labour market of the first cohort of £9,000 payers.

The third, is that the core rationale underpinning tuition fees - the transfer of cost from public to private, taxpayer to graduate - is coming under scrutiny. It is now clear that the day-to-day saving to the exchequer of not funding fees directly is offset by a large annual cost which begins at the point where loans are written off, 30 years after they are extended. This will start in the mid-2040s at around 0.3% of GDP annually, or £5.6bn in today's money,

This cost does not feature in the official public finances for two reasons. First, because the government runs policy on a five-year forecast. Second, because the UK's calculation of public net debt handily discards future liabilities incurred today, like student loans - a far cry from the accounting framework that applies to businesses in the UK. The reality is that the “saving” being made through graduate fees is in fact, at least in part, a transfer of public cost from today to the

future. When intergenerational equality is becoming a headline issue in the UK, this strategy is becoming harder to defend.

The upshot is that a fee-free world is now more politically tangible, more easily justifiable with reference to graduate personal finances and less fiscally implausible than it has ever been. And in turn, the political cost of inaction is beginning to rise, as the government finds itself the defender of a system that is increasingly seen as no longer fit for purpose. Prior architects of the system such as Lord Adonis are now calling for change. Despite the Labour Party's inability to explain how they will pay for it, they are getting serious political mileage from the issue.

Mitigating this growing political cost means re-assessing the allocation of cost between public and private, to reach a new balance point between the three sets of costs. It seems almost certain that this means asking the taxpayer to do more and individual graduates to do less - the opposite would fly in the face of the three drivers set out above. But in an era of "austerity fatigue", when Phillip Hammond is fielding a plethora of worthy calls on the public purse and a softening tax revenue outlook, whether the government sees this as a fiscal priority remains to be seen. This Autumn's Budget may give us the answer.