Dorling, D. (2014) Tuition fees: a bonanza for the 1%, The Guardian, September 30th, http://www.theguardian.com/education/2014/sep/30/tuition-fees-bonanza-for-one-per-cent-danny-dorling

Tuition fees: a bonanza for the 1%

Only the super-rich benefit from the fees and loans system, in which 17-year-olds must sign up for massive debts in adulthood

- **Danny Dorling**
- The Guardian, Tuesday 30 September 2014

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Danny Dorling: 'My generation is opting out of an obligation to pay to fully educate the generation behind it.' Photograph: Frantzesco Kangaris for the Guardian

"During the past two and a half years every artifice has been employed to create the impression that public expenditure on education is recklessly extravagant". So complained RH Tawney 80 years ago. The same impression was given more recently by politicians when they raised tuition fees. Public spending on higher education has been reduced to a minimum, save in medicine, a few of the sciences and some minimal maintenance grants. Whose idea was this? It was dreamed up among the 1%, the very richest in our society.

For the poorest students, a maintenance grant is just £65 a week – not enough to pay the rent in most cities, let alone also eat or buy a bus ticket. Should your parents' incomes rise to £20,000 a year each, your grant falls to just £10.52 a week. In short, almost everyone who goes to university in the UK will have to take out loans for tuition and maintenance, unless of course their parents are so rich they can pay all this upfront: ie they are among the 1%.

In England, what had recently come from the public purse has been almost entirely replaced by private debt through fees and loans. Our universities have been privatised. We were told that the alternative was recklessly extravagant. But the irony is that the cost to future governments could be higher than the old system because the state has to underwrite these loans. The expected default rate is 45-46% – and that could rise.

I believe my generation is opting out of an obligation to pay to fully educate the much smaller generation behind it, and all at the instigation of some of the very best-off people – the key policymakers. In much of Europe, despite economic crisis, there are no maintenance fees, as students live with their parents and go to their local university. Tuition fees are usually extremely low or non-existent. But in this country, students must pay bigtime to line the pockets of the super-rich.

At this rate, to take an extreme example, if highest permissible fees were tripled and then tripled again every six years – as has already happened twice – then in 2016 the top permitted fees would rise to £27,000 and in 2022 to £81,000 a year. Although highly unlikely, this is not entirely impossible, at least for a tiny number of the most sought-after courses. It could happen simply if an incoming government in May 2015 just quietly lifted the fee cap and said that students would have to secure private loans above the £9,000-a-year state loans. They might even try to reduce state liability by insisting private loan providers buy part of the state loans when higher loans are taken out.

You might think an open market in fees could not happen quietly, but it is easily done. Lift the cap for a few "expensive" courses in "expensive" universities. Make promises that this is just a temporary measure due to funding difficulties. Or suggest it's only fair because certain students can expect to earn much more in future. But then, of course, they will have to earn much more to pay back fees so much higher than £9k a year. That way you lock future income inequality in.

A new government elected in 2015 could take the cap off fees saying that it could not afford future defaults. If that were to happen, the cost of the most expensive courses at the priciest universities could, within another six years again, exceed top US fees. As in the US, there would be private lenders willing to step in if the law were changed to give them greater powers to recoup.

But an increasing proportion of young people in England are applying to go to university even though the cost of doing so is high and rising rapidly. Every time fees in England rise, the proportion of young people applying to university also rises. This happened when we moved from no upfront fees to fees of £1,000 a year in 1998; and again when fees rose from £1,000 a year to £3,000 in 2004; and, most recently, once the majority of universities began charging £9,000 a year. Numbers going to university have not risen faster in Scotland or Wales, where fees are either not charged or are lower for home students. The huge hike in fees has put off older students – especially part-timers – partly because they often have prior experience of debt – and because, of course, they are not children when making these key life decisions.

One reason that more young people apply is that other options are becoming more limited and less desirable. As income inequalities escalate, the cost of failing to secure a place in the top half of society rises, and so the perceived benefits of a university education rise in turn. If future UK society is to have a few more princes and many more paupers, then the risk of taking on student debt may be less than the risk of not going to university. The worst that happens if you fail is bankruptcy. Even a form of bankruptcy you can never write off might be worth the risk of a chance to make it into the best-off 1%; if that tiny group are to get a greater and greater share in future.

Potential students do have some options that they do not take up. It’s hard to understand why more English students don’t study in Europe at much lower long-term expense, to properly get away from home at age 18, and to stand out from the crowd. Perhaps they have become infantilised as their parents try to protect them in a world where there will be far more losers and only a few winners. Of course, they would have to come up with the money to travel and live abroad upfront although their rent would usually be far lower than in the UK. How many English students would be able to borrow or beg money to do that despite it being far cheaper in the medium term?

I find it hard to understand why more students don’t wait a year or two before going to university. Given the vast expense of the decision they are about to make, they need to be more sure of their choice than my generation ever was. Perhaps they don’t realise. Choosing the wrong course and beginning again after a year is set to become a very expensive mistake.

From spring 2016, the first students who have been charged £9,000 a year will have to start paying back their loans. Those loans could increase future economic inequality. The outstanding debt on UK student loans goes up every year in line with the retail price index (RPI), and then is increased by up to 3% more, on a sliding scale, for incomes between £21,000 and £41,000.

If inflation rises faster than wages, the debt will rise dramatically. And that is what has happened recently. Once loans are privatised, they will become just another “hedge” that the rich can use. By lending students money, the best-off (those with spare money) are protecting the future wealth of the rich against inflation. The threshold of £21,000 is effectively lowered when inflation rises.

Ministers have suggested that they might be minded to raise the £21,000 threshold in future, but that they have a massive public debt to consider. Should it not be raised, the amount you have to pay off through the tax system each year then increases with earnings over £21,000, irrespective of how little that increase might be worth in real terms. People in low paid jobs are likely to be paying back student loans because they have not factored in the effects of inflation.

If the current growing student loan book was seen as the potential risk that it is, it would be understood very differently. The UK government produced a repayment calculator using an RPI of 3.6%, and working with starting graduate salaries from £15,795 to £70,000. It allows for a maximum loan, including maintenance and tuition, of £50,025 for a three-year course. If you enter a starting salary of £15,795, it takes 30 years to pay off a loan of £21,000, at a total final cost of

£56,000; if you borrowed £50,000, you still only have to pay back £56,000 as long as your salary remained low. However, with a starting salary of £26,000, your £50,000 loan would eventually cost you £166,150. I would be surprised if many 17-year-olds understood this.

The repayment calculator might come in handy should students take legal action against a government that turned millions of young people's university education into a fail-safe investment opportunity for a few of the 1% and their close friends.

In 2012 two students failed in their legal battle against the raising of tuition fees. They argued that the fees discriminated against poor and ethnic minority students. As yet no challenge has been made on the grounds that coercing children to make decisions that ensure they have massive debts as adults, might be unfair marketing aimed at minors.

The government has little intention of holding on to the loan book, but can't as yet find potential buyers – who fear that too many students will default as income inequalities remain high and so many graduates will be in low-paid jobs.

Few people other than the very best-off have much spare money to invest in risky business such as purchasing student loans. Even the richest 1% need the government to come up with more draconian sanctions for failing to repay loans before they will be interested in buying the loan book. Once that happens, they will have an even bigger financial interest in suppressing tax rises to fund tertiary education. That is because investors will lose money if students need to borrow less.

Another way of looking at this issue is in terms of how a student's tax will be calculated, using current rates. The first £9,440 of income is untaxed; the next £11,660 is taxed at 20%; the next £23,440 is taxed at 29% – and anything above £44,540 is taxed at 49% until the loan is paid off. While much richer people say that the imposition of a 50% tax rate on their income would be totally unacceptable, they are happily imposing it on the children of parents who cannot pay tuition fees upfront.

Inequality will be increased as a result of the student loan system. Very affluent students will simply pay the £27,000 three-year tuition cost upfront and accrue no interest. Parents pay their rent, or buy them a home to live in while at university and charge their (not quite so affluent) friends rent. It is no coincidence that the two countries with the highest student fees in the rich world are also the two with the highest number of extremely rich households per head: the UK and US.

As with so much else in UK society, what is in the interest of the 1% tends to be what is happening. It is very expensive to fund a group that has an annual price tag of 15% of all income. That is what the 1% take, each year. More and more ingenious ways are needed of raising income for them from more investment opportunities. The hopes and fears and aspirations of the young are an opportunity to make yet more money. Student loans are bought and sold in the US on an open market. If we continue to become more unequal it is only a matter of time before that begins here too.

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