intergenerational foundation
Fairness for Future Generations

PRESS RELEASE

5 April 2017

Student Fees in England are Economically Inefficient

A new paper published today challenges the current funding system in higher education, calling it "economically inefficient".

In the paper, Dr Kevin Albertson, Professor of Economics at Manchester Metropolitan University, points out that the public benefits of a young person's getting a higher education qualification more than outweigh the costs, according to the government's published figures.

Dr Albertson comments, "If you accept the government's average lifetime graduate premium figures of £210,000 and an average public benefit of £290,000 then the expected fiscal return on a typical degree is around £500,000; 42% of which accrues to the individual and 58% to the public purse. Once the social returns from an average higher educational qualification are added, the total benefit for the average individual's degree is about £1,000,000."

A typical three-year degree costs at least £47,750 (including tuition fees, expenditure and opportunity costs). For economic efficiency, the cost should be shared between the state and the individual in the same ratio as the benefits accrue. In sum, the state ought to cover 58% of the cost (£27,750), with the individual covering the remaining 42% (£20,000). Over a three-year degree this would mean the state contributing £9,250 a year, which, as it happens, approximately matches the level of tuition fees paid in many higher educational institutions from September 2017. In short, higher education tuition fees should be paid by the state!

Dr Albertson continues, "These figures are quite conservative and exclude the spill-over effects associated with the very existence of universities which benefit wider society and are estimated to be around £1.6 billion."

Angus Hanton, IF Co-founder comments, "In 2014 senior academics called the current regime of higher education 'bust'. While the government marches on with marketisation and academics worry about the long-term sustainability of the system, those bearing the financial burden, the students themselves, have been largely forgotten.

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"It cannot be fair that, when graduates today start paying off their student loans, they face a minimum effective marginal tax rate of 41% (including National Insurance, income tax and student loan repayments). This additional burden laid on our young people leads to a reduced ability to save for the milestones previous generations passed so easily, such as moving out of the parental home, saving for a first home, saving for and supporting a family, and saving for their own old age.

"Forcing our young people to shoulder the full costs of their degree, and at a hefty rate of interest besides, allows the state effectively to free-ride on our young people's investment in education. This is likely to lead to underinvestment in education, setting the stage for future skills shortages and poverty. We might also reflect that experience indicates high levels of private-sector debt have a destabilising effect on the national economy. We should be aiming to reduce private UK indebtedness (including student debt), not increasing it.

"Ultimately, if we fail to support higher education appropriately, fewer young people will invest in their future – which means there will be less than the economically efficient level of investment in the future of our nation as a whole. The Intergenerational Foundation calls for a fairer system for paying for higher education in the long term; for the good of our young people and for the good of the UK."

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Note to Editors:

1. Professor Albertson is available for comment. Please contact him on 0161 2473915, email k.albertson@mmu.ac.uk to arrange an interview.
2. For IF media enquiries please contact: liz@if.org.uk mob: 07971 228823.
3. The fees quoted in this report consist of upfront costs and opportunity costs based on £9,000 a year tuition fees but exclude living costs.
4. Student Loans fall within the basket of goods that affect the Consumer Price Index, which means benefits for older generations rise accordingly.
5. The 2012/13 loan agreement contains the following clause: "You must agree to repay your loan in line with the regulations that apply at the time the repayments are due and as they are amended. The regulations may be replaced by later regulations."
6. Primary legislation is not required to lower the repayment threshold or increase the interest rate.
7. The government has already: frozen the repayment threshold at £21,000, thereby dragging more lower earners into repayment; increased fees in line with inflation going forward; and replaced maintenance grants for the poorest students with maintenance loans.
8. The Intergenerational Foundation (www.if.org.uk) is a vehemently independent, non-party-political think tank that researches intergenerational fairness on behalf of younger and future generations.