The Graduate Premium:

manna, myth or plain mis-selling?

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The Intergenerational Foundation (www.if.org.uk) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. While increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact while losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that are fair to all – the old, the young and those to come.

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Foreword

Any politician that dangles the carrot of a graduate premium on future earnings to justify increases in student fees, interest rates on loans, or adjusting student loan repayment thresholds, should be challenged for gross mis-selling.

As this paper makes plain, a wide range of factors influence whether you are likely to receive a graduate premium. These include, amongst others, pre-university education, the institution you attended, socio-economic background, gender, ethnicity, subject choice, and degree result. On graduation economic factors then come to the fore, such as the supply of graduates, chosen career path, and conditions in the employment market.

Time and again, successive governments, both left and right leaning, have bandied about a £400,000 average lifetime graduate premium, but as the latest research has highlighted, the average graduate premium has been reduced to around £100,000. This paper argues that this estimate is still too high, but even if you accept an average lifetime graduate premium of £100,000, spread over 45 years, it only gives an annual premium of just £2,222 per year. That is simply not enough to cover the interest accruing on the average loan – bad news for young people and worse news for the Treasury as poorer students borrowing an average of £53,000 will accrue interest of £282,420.75, if their student loan is left unpaid for the full 30 years and then written off, as the current system promises. No wonder the government is so keen to sell off the loan book!

As the ceiling at which a degree is necessary has been lowered, estate agents, recruitment agencies and even fitness gyms now demand a degree. The UK has more over-qualified workers than any OECD country other than Japan. You could argue that requiring a degree helps to drive up standards as companies are increasingly able to choose from an abundance of graduates with a higher class of degree. Fair enough, but higher qualifications have not led to an increase in graduate pay.

Our young graduates now have to improve their chances further by embarking on post-graduate study and taking on more debt, or else enter the Wild West of the employment market where they are increasingly likely to end up on a zero-hours contract as a barista, realising that their three years of university study was simply not worth it.

We risk encouraging our young to enter nothing more than a self-perpetuating debt-generating engine with lower and lower entry standards that enriches those inside but blights the financial futures of our children by loading them down with debt. Where is the political will to stop what has become mis-selling by our government to our youth?

Angus Hanton

Co-Founder, Intergenerational Foundation

Introduction

On Friday 15 November 2002 the then higher education minister Margaret Hodge outlined her case for making students pay even more for their degrees. She asked an audience of Vice-Chancellors attending a conference organised by Universities UK to "stand back for a moment from the regular pleas we hear from students that student debt is crippling them". She claimed that graduates earned £400,000 more than non-graduates over a lifetime, but their education is subsidised by 35% (twice as much as in the US). Her conclusion was that future students should foot more of the bill to finance the growing numbers of students and rectify a generation of underfunding. [1]

To accommodate the growing number of students, and to rectify a "generation of underfunding", Mrs Hodge concluded that students would have to foot more of the bill. Paying these increased fees was, as far as she was concerned, perfectly justified, both from a funding point of view and as a good investment in the student's own future. This was because of the "graduate premium" that she had identified: £400, 000 over a lifetime.

This graduate premium has time and again been cited by spokespeople from successive governments, both left and right-leaning, as some kind of guaranteed bonus that all graduates will gain by taking on ever-increasing student debt. This paper will show that it is certainly no such thing. It has no real value either as:

a) a justification of the benefit of studying for a degree;

b) a justification for universities raising tuition fees;

c) a justification for removing the cap on the number of student places available;

d) a justification for taking on what in most cases will be a debt that will never be paid off.

Far from it: the current fee level is already the highest in the world for public universities and subject to one of, if not the highest interest rates on student loans in the world.[2] Under the current payment terms, fees and loans may well leave the graduate effectively indentured to some as-yet-unknown private sector debt holder in the future.

The graduate premium, how much? (How long is a piece of string?)

At the time of Margaret Hodge's statement in 2002, the simplest measure used to assess the benefits of tertiary education was the higher salaries graduates received compared with non-graduates. It was a simple matter of estimating the additional income earned by a graduate (over a non-graduate with two A levels) during a working life. Using the age-

[1] Curtis, P. (2012). "Hodge makes a case for raising tuition fees", *The Guardian*, 15 November 2012: www.theguardian.com/education/2002/nov/15/highereducation.uk2

[2] OECD (2015). "Education at a Glance 2015": www.oecd.org/edu/education-at-a-glance-19991487.htm. See also White, J. (2013). "Squeezing our Students? An English/OECD comparison of the student finance burden", Intergenerational Foundation: http://www.if.org.uk/archives/4018/squeezing-our-students-an-englishoecd-comparison

earnings profiles in a report written by Dutta in 1999, Greenaway and Haynes reported that the earnings premium was £410,000.[3] Using Careers Services Unit data and a different methodology, Skidelsky arrived at an almost identical estimate of £400,000 in 2000.[4] Finally, using Labour Force Survey data and a slightly different methodology again, the UK's Department for Education and Skills also calculated the lifetime earnings differential as £400,000.[5] But these average premium levels cannot be compared with the situation that exists in 2016.

The problem with this simplistic measurement (graduate vs non-graduate with two A levels) was that it did not factor in an entire middle cohort, namely those who went to further education or technical colleges to study the likes of art or nursing. These were institutions where an industry-specific qualification was achieved, such as an ordinary or higher National Diploma or an art/secretarial/admin/business diploma. Their figures were based on people, many of whom graduated, or were about to graduate, in 1980 when only 13% went to university.[6] There is no mention of this middle cohort, who, while potentially earning less than university graduates, would have earned in many cases more than someone ceasing their education at A level (in Blundell et al.'s survey: one A level, grade unspecified).[7]

This middle cohort now forms the post-1992 group of rebranded colleges that mushroomed in the 1990s and has led to the current situation where almost 50% of young people go on to university higher education. This amounts to a near quadrupling of the number of graduates of 3+-year courses with more careers, such as police or nursing, now requiring a degree.

The 1988 White Paper that introduced student loans estimated in percentage terms that an average rate of return to a first degree (i.e. the increased future earnings resulting from it) was about 25%, whereas by 1997 the Dearing Report of the National Committee of Inquiry into Higher Education provided evidence that this was already falling to between 11% and 15%.

Many studies have confirmed the existence of a graduate earnings premium while failing to highlight the key point that this is only an average. In the real world students face a vast range of possible outcomes, such as the variations in graduate earnings by type of institution, degree classification and socio-economic backgrounds. A study by Alan Ramsey (2008) concluded that "any estimates of the average rate of return to a university degree… are likely to conceal much variation about the average."[8]

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[3] Greenaway, D. and Haynes, M. (2003). "Funding Higher Education in the UK: The Role of Fees and Loans", *The Economic Journal*, 113 (485), pp.F150-F166.
[4] Skidelsky, R. (2000). Hansard, 14 June 2000, pp. 1685–7.
[5] Greenaway and Haynes (2003), loc. cit.
[6] Blundell, R., Dearden, L., Goodman, A. and Reed, H. (2000). "The returns to higher education in Britain: evidence from a British cohort", *Economic Journal*, vol. 110, pp. F82–99. The authors used data from the NCDS (National Child Development Survey) on a cohort of individuals born in 1958.
[7] Ibid.
[8] Ramsey, A. (2008). "Graduate Earnings: an econometric analysis of returns, inequality and deprivation across the UK", Department for Employment and Learning, Northern Ireland: http://dera.ioe.ac.uk/9751/1/graduate_earnings__main_report.pdf

The size of the graduate premium also varies by subject. A report published in 2011 by the Department for Business, Innovation and Skills (BIS) found that the highest premiums were gained by those with degrees in medicine and dentistry: 70.1% for men and 91.7% for women.[9] But many degree subjects regularly yield little or no premium at all, such as creative arts, design, sports science, and hospitality.[10]

Calculating graduate premiums is, furthermore, like gazing into a crystal ball – forecasting a future that no one can safely predict. Future graduate premiums may, for example, be undermined by the threat to jobs from computerisation. A recent US study by Frey and Osborne suggested that rapid developments in software, computerisation and machine intelligence could well replace up to 47% of total employment – including many jobs currently filled by graduates.[11] Many of these people will have to change careers, start again and probably suffer a fall in, or stalling of, income and may well incur retraining costs.

Estimates of the graduate premium have become considerably more modest since 2002, and strangely volatile. A recent study[12] put the graduate premium at £168,000 for men and £252,000 for women, while a similar study just two years earlier concluded that it was £121,000 for men £82,000 for women.[13] Commenting on these figures, the Institute of Economic Affairs noted that:

> ***"Such a large variation between two studies with large sample sizes (Labour Force Survey of c.100,000 with c.50,000 responses) is an indicator of the uncertainty facing an individual student when considering whether it is worth going to university. The degree of uncertainty is further increased by the range of outcomes by subject studied. [Statistics show] a very wide range of possible graduate premia, from £400,000 for men studying Medicine and Dentistry to a negative £10,000 for men studying Creative Arts and Design. If medical careers were excluded, the graduate premium would be significantly lower, with many subjects yielding paltry returns."***[14]

Today, the average figures quoted for the graduate premium have fallen even further to around the £100,000 mark. Note that £100,000 spread over a 45 year career is worth only £2,222 per year, which is not high enough to cover even the interest that will accrue on the average loan – hardly a sound financial justification for taking on the debt.

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[9] Conlon, G. and Patrignani, P. (2011). "The returns to Higher Education Qualifications", BIS Research paper No. 45, London Economics, June 2011.
[10] De Vries, R. (2014). "Earning By Degrees: differences in the career outcomes of UK Graduates", Sutton Trust.
[11] Frey, C.B. and Osborne, M.A. (2013). "The Future of Employment: How susceptible are jobs to computerisation?" Oxford Martin School: *www.oxfordmartin.ox.ac.uk/publications/view/1314*
[12] BIS (2013b). "The Impact of University Degrees on the Lifecycle of Earnings", BIS Research Paper No. 112: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229498/bis-13-899-the-impact-of-university-degrees-on-the-lifecycle-of-earnings-further-analysis.pdf
[13] BIS 2011b: "The Returns to Higher Education Qualifications", BIS Research Paper No. 46: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32419/11-973-returns-to-higher-education-qualifications.pdf
[14] Ainsworth, P. (2014). "Universities Challenged, Funding Higher Education through a 'free market' graduate tax", Institute of Economic Affairs (IEA) Discussion Paper 57, October 2014, p.16.

1. The financial implications of student loans

The effect of interest

Central to the debate over the graduate premium that students are likely to gain from completing higher education study is how much their university education will cost them. How interest on a student loan accrues plays a significant part in calculating the "true" cost of higher education. The benefits of increased salary resulting from any premium will tend to come in later years as seniority and salary grow; however, in England the effect of compound interest kicks in from the moment a loan is borrowed. If undergraduates take out loans for both full fees and maintenance loans, then for all but the one or two per cent of the very highest paid new graduates the interest accruing will far exceed the ability to pay it, and thus the debt will inexorably rise in these early years – a kind of "front-end loading" that will dig deep into the future gains in income promised by the graduate premium. This will ensure that, for many, the repayment of loans will last for decades: the surcharges on incomes will continue well into their 50s when retirement planning and helping their children with tertiary education become pressing issues. For the purposes of our discussion of graduate debt, Crawford and Greaves' figure of £53,000 has been used.[15] This refers to a graduate who has borrowed the maximum amount for tuition fees and maintenance (living costs), plus interest accrued during the three years of study. Under the current loans system, interest is calculated from the day the loan is taken out. As Money Saving Expert explains:

> ***"Interest is changed each September, based on the previous March's RPI rate of inflation plus 3% while studying, and then on a sliding scale between RPI and RPI + 3% after graduation (depending on earnings). That means current students [2013] are charged up to 6.3% interest during their 3 years of study."***[16]

Health warning! Some nasty numbers

At the historic average bank rate of 5.59% over 30 years until January 2016 (including the historically low post-crash rate of 0.5% since January 2009), if left unpaid for the full 30 years a debt of £53,000 will have accrued interest of £229,420.75, giving a total debt of **£282,420.75.** At the historic average of 8.36% for the 30 pre-crash years (Jan 1979–Jan 2009) the debt will have accrued interest of £592,223.05, totalling **£645,223.05.** Nasty figures aren't they? Especially that by increasing the lower interest rate of 5.59% by just under a half – to 8.36% – the final debt almost triples after 30 years, if left unpaid. Furthermore, these figures are net of the effects of any surcharge over and above the bank interest rate that current/future debt holders might choose to add. (It's called profit and administration costs, and most businesses do it.) The swift rate at which interest accrues using compound interest rates is alarming. Table 1 (see page 10) demonstrates how quickly a debt can grow.

[15] Crawford, C. and Greaves, E. (2015). "Socio-economic, ethnic and gender differences in HE participation", Department for Business and Skills (BIS), London: www.gov.uk/government/uploads/system/uploads/attachment_data/file/474273/BIS-15-85-socio-economic-ethnic-and-gender-differences.pdf

[16] *Money Saving Expert,* 10 December, 2013: http://blog.moneysavingexpert.com/2013/12/10/student-loan-sell-off-should-you-be-worried/

It should now be noted that in-study debt interest has fallen in 2015/6 from the 6.3% in the above illustration to 3.9%, which would slightly reduce the debt on leaving university; however, the limit on the amount available for maintenance has risen and the low-income family grant is to be removed.

Paying upfront or early repayment?

Paying off student debt early, escaping it if you will, or having no debt, reduces/avoids the interest element which, if left unpaid, at even low interest, far exceeds the loan principal over the term of the loan, as Table 1 (overleaf) shows. This freedom is enjoyed almost exclusively by those from the highest socio-economic strata, who tend to borrow less anyway. Those from the lowest social strata will borrow more, and pay back less through the current "Willetts Tax" system, to the point where they won't even cover the interest, and will end up with a larger final balance to be picked up – under the system as it stands – by future generations of taxpayers.

More nasty numbers: only the highest starting salaries will do

According to Money Saving Expert, current interest and surcharge levels will require graduates to have a starting salary of about £40,000 to pay off the whole of their student debt. In order to show what could happen if interest rates rise, we assume a maximum undergraduate debt of £53,000, and an average of the lower of the two bank interest rate figures that are used in Table 1 (5.39%).[17] Based on these figures, interest due in the first year would be £3,039.80. Assuming 9% of gross income above £21,000 is put towards student loan repayment, in order to stop the debt increasing further, a graduate would have to find work with a starting salary of £54,376 just to cover the interest, let alone be able to pay off any of the principal (£3,039.84 is 9% of £33,376). In other words, 99% of students who have to max out on their loans will watch the compound interest grow happily for at least the first few years after graduating, making it doubtful if their 9% Willetts Tax will ever touch the principal debt at any time during the next 30 years (under the present terms, the student loan is written off after 30 years). Raising the £21,000 repayment threshold will of course make this situation worse down the line from both the graduate's as well as from a Treasury perspective, as the interest accrual due to non payment for many would add more to the debt balance in the early years, which adds more to the figure to be written off in the future if present terms and conditions remain.

Shifting sands: the terms and conditions of loans

The repayment terms and conditions for student loans can already be changed at any moment, without debate and without notice. The student loan agreement terms and conditions state:

> ***"The regulations may change from time to time and this means the terms of your loan may also change. You must agree to repay your loan in line with the regulations that apply at the time the repayments are due, subject to the regulations being amended from time to time."*** [18]

Graduates can have no certainty over their future obligations. The government could vary or freeze (as they now plan to do) the level of income above which the loan must be repaid, or vary the proportion of income to be taken as loan repayment, the rate of interest and/or the number of years before the loan is written off.

[17] 5.39% is the average Bank of England rate for the 30 years prior to 2015 and includes the last eight years of historically low interest rates.
[18] Department of Business, Innovation and Skills (BIS): 2013c:3.

Table 1: Illustration of how compound interest increases overall debt[19]

5.59% interest compounded monthly – added to the end of each month				8.36% interest compounded monthly – added to the end of each month			
Year	Year Interest	Total Interest	Balance	Year	Year Interest	Total Interest	Balance
1	£3,039.80	£3,039.80	£56,039.80	1	£4,604.58	£4,604.58	£57,604.58
2	£3,214.14	£6,253.94	£59,253.94	2	£5,004.62	£9,609.20	£62,609.20
3	£3,398.49	£9,652.43	£62,652.43	3	£5,439.41	£15,048.61	£68,048.61
4	£3,593.41	£13,245.84	£66,245.84	4	£5,911.98	£20,960.60	£73,960.60
5	£3,799.51	£17,045.35	£70,045.35	5	£6,425.61	£27,386.21	£80,386.21
6	£4,017.85	£21,062.78	£74,062.78	6	£6,983.86	£34,370.07	£87,370.07
7	£4,247.85	£25,310.63	£78,310.63	7	£7,590.61	£41,960.68	£94,960.68
8	£4,491.48	£29,802.11	£82,802.11	8	£8,250.07	£50,210.75	£103,210.75
9	£4,749.09	£34,551.20	£87,551.20	9	£8,966.83	£59,177.58	£112,177.58
10	£5,021.47	£39,572.67	£92,572.67	10	£9,745.86	£68,923.44	£121,923.44
11	£5,309.48	£44,882.14	£97,882.14	11	£10,592.57	£79,516.01	£132,516.01
12	£5,614.00	£50,496.14	£103,496.14	12	£11,512.84	£91,028.84	£144,028.84
13	£5,935.99	£56,432.13	£109,432.13	13	£12,513.06	£103,541.90	£156,541.90
14	£6,274.44	£62,708.58	£115,708.58	14	£13,600.18	£117,142.08	£170,142.08
15	£6,636.43	£69,345.00	£122,345.00	15	£14,781.75	£131,923.83	£184,923.83
16	£7,071.06	£76,362.06	£129,362.06	16	£16,065.97	£147,989.79	£200,989.79
17	£7,419.52	£83,781.58	£136,781.58	17	£17,461.76	£165,451.55	£218,451.55
18	£7,845.06	£91,626.64	£144,626.64	18	£18,978.82	£184,430.37	£237,430.37
19	£8,295.01	£99,921.66	£152,921.66	19	£20,627.68	£205,058.05	£258,058.05
20	£8,770.77	£108,692.43	£161,692.43	20	£22,419.78	£227,477.83	£280,477.83
21	£9,273.82	£117,966.25	£170,966.25	21	£24,367.59	£251,845.42	£304,845.42
22	£9,805.71	£127,771.96	£180,771.96	22	£26,484.62	£278,330.04	£331,330.04
23	£10,368.12	£138,140.08	£191,140.08	23	£28,785.57	£307,115.61	£360,115.61
24	£10,962.78	£149,102.86	£202,102.86	24	£31,286.43	£338,402.03	£391,402.03
25	£11,591.54	£160,694.40	£213,694.40	25	£34,004.55	£372,406.59	£425,406.59
26	£12,256.37	£172,950.78	£225,950.78	26	£36,958.83	£407,365.42	£462,365.42
27	£12,959.33	£185,910.11	£238,910.11	27	£40,169.77	£449,535.19	£502,535.19
28	£13,702.61	£199,612.72	£252,612.72	28	£43,659.67	£493,194.86	£546,194.86
29	£14,488.52	£214,101.25	£267,101.25	29	£47,452.78	£540,647.64	£593,647.64
30	**£15,319.51**	**£229,420.75**	**£282,420.75**	**30**	**£51,575.42**	**£592,223.05**	**£645,223.05**
Base amount: £53,000.00 Interest rate: 5.59% Effective annual rate: 5.74% Calculation period: 30 years				Base amount: £53,000.00 Interest rate: 8.36% Effective annual rate: 8.69% Calculation period: 30 years			

This ability on the part of the lender to change the loan terms at will is inconsistent with most ordinary loan agreements. In the private sector, such terms would potentially be considered unfair, making the agreement unenforceable. The fact that the government charges higher rates of interest on higher earners is wholly consistent with the system being a form of graduate tax and not a loan.

[19] Figures reproduced from: www.thecalculatorsite.com/finance/calculators/compoundinterestcalculator

Breaking the covenant: freezing the £21,000 threshold

In November 2015 George Osborne unilaterally, and without parliamentary debate, broke the government's earlier promise that the income threshold above which payments would be taken would increase annually from April 2017. He announced instead that the earnings threshold of £21,000, at which graduates must begin to pay back their loan, would in fact be frozen for five years. This means that graduates who have paid the higher course fees of £9,000 a year, introduced in September 2012, will face higher repayments as the income threshold will not rise with average earnings.

A Department for Business, Innovation and Skills spokesperson released the following statement:

> ***"Students do not have to pay anything back until they are earning £21,000 and will only pay back 9 per cent of earnings above that amount. While the economic recovery is underway, graduate earnings haven't risen as they were expected to and we consulted on the change with the sector and student organisations in the summer."***[20]

This does not address or properly justify the unilateral, retrospective change in terms – something that would never be allowed in the private sector.

Previous changes, such as the rise in fees to £9000, affected just new and future students. This controversial change, however, affects all students, and means that (according to the Institute of Fiscal Studies) a typical graduate could repay £3,800 more over the term, with those on median earnings paying over £6,000 more.[21]

Following this change, Martin Lewis – the founder of Money Saving Expert and former head of the government-backed organisation the Independent Taskforce on Student Finance Information – has started legal proceedings through Bindman Solicitors to test the legality of the change. We await the outcome. In a letter to the Prime Minister, Martin Lewis wrote:

> ***"The decision to backtrack on this is hugely damaging. It means many lower- and middle-earning graduates will repay thousands more over the life of their loans.***
>
> ***"However, even more important than the additional cost is the message this sends. The regulator would not allow any commercial lender to make a change to its terms this way. It is therefore surely wrong for the Government to do so…***
>
> ***"Present and future generations must be able to trust the Government to keep its word on student finance."***

A full version of the letter can be found in Appendix 1.

Increasing the debt for low-income families

Under the current (soon to be superseded) system, university students from families with household incomes of £25,000 or less are entitled to a grant of £3,387 a year to cover living costs. The level of grant decreases as the family's income increases and ends

[20] *Huffington Post* Young Voices, 15 January 2016. "Martin Lewis Writes a Damning Open Letter to David Cameron over Retrospective Student Loans Hike": www.huffingtonpost.co.uk/2016/01/15/martin-lewis-writes-letter-david-cameron-student-loans_n_8989354.html?utm_hp_ref=uk
[21] Institute of Fiscal Studies (IFS): www.ifs.org.uk/publications/7905

when a household earns more than £42,620. From the 2016/17 academic year these grants are to be replaced by loans, so for many poorer students this is a mid-term unforeseen expense. These loans will have to be repaid under the same terms as existing tuition fee loans once a graduate earns over £21,000 a year. The maximum value of the loan will be increased to £8,200, but graduates will have to pay it all back.

Because of the replacement of maintenance grants by the new maintenance loans, the poorest 40% of students going to university in England will now graduate with debts of up to £53,000 from a three-year course (previously £40,500) as cited above and reiterated by Britton, Crawford and Dearden.[22] This figure of £53,000 is based on a graduate having borrowed the maximum cost of tuition fees (£9,000 per year) and the maximum maintenance loan (£8,200 per year) at a real interest rate of 3% on their loan while studying.

Students from households with pre-tax incomes of up to £25,000 (those formerly eligible for a full maintenance grant) may well have a little more to spend while at university but they will graduate on average with around £12,500 more debt from a three-year course. This means that students from the poorest backgrounds are now likely to leave university owing substantially more to the government than their better-off peers.

However, it is also estimated that as a result of this reform about two-thirds of those eligible for the full maintenance grant will repay no more than previously because they will end up with the additional debt being written off after 30 years (under current terms). For the remaining third, repayments are forecast to continue for an extra four years on average, with contributions rising by around £9,000, on average in 2016 money.

The debt spiral

Normally when a person borrows, both the borrower and the lender first ascertain whether the borrower can pay back the sum over a defined period. The new borrowing paradigm, with the current "no obligation until you earn a certain income sometime when" repayment conditions, could mean that money does not have the same value and thus students are less likely to spend within their means, in contrast to the pre-loan days of the student grant. Then, when money was short, borrowing was not, for many, an option; thus, the choice was an extra-curricular job or budgeting. Students can now borrow their way out of trouble more easily and in doing so will of course increase their overall borrowing and further wipe out any possible graduate premium.

There is also growing evidence of the inflationary effects that large amounts of readily available "borrowed" money has on rents and other student bills in university towns. People going into many respected but relatively low-paid careers such as nursing, teaching, the police or social work will never, ever pay off all their debts.

[22] Britton, J., Crawford C. and Dearden, L. Institute for Fiscal Studies (IFS) press release 21 July 2015.

Selling off the student loan book

The "owner" of the debt book can be changed at any moment, without debate.

In a letter sent to the author in February 2011 Mr (now Lord) Willetts, states that the Government is:

> ***"looking at a large range of options for a potential sale of the student loan book and will make a decision on how and whether to proceed with a sale by Budget 2011."*** (See Appendix 2)

Such a sale of the loan book to a private enterprise may entail a change of terms and conditions, over which graduates holding the loans have no power. An example of this is the sale of the old pre-1998 mortgage-style loan book to Erudio and its sub-contractor Capita. Under the new owner, graduates are expected to start to repay their loans once their annual income reaches £28,775. There is no sliding scale, merely an immediate hit whereupon the full debt is expected to be repaid in 60 equal monthly instalments. These old-style loan repayments taken over by Erudio are not collected directly from payroll, as is the case with the current unsold tranche of student loans. Instead, the repayments are taken via compulsory direct debit, just like a normal bank loan.

According to Martin Lewis in a blog on Money Saving Expert[23], there have been numerous problems from the sale of these pre-1998 loans. Problems range from over-payments, errors in the amount collected, payments taken by direct debit in error and without notice (contrary to Direct Debit Regulations), as well as payments taken without notice even though they are deferred. Such errors frequently leave graduates facing overdraft charges and credit score problems. Lewis goes on to berate Erudio for the difficulty graduates face in contacting them in order to seek redress, as well as the poor customer service given once a phone call gets through to an advisor.

Of more concern is the fact that Erudio is also handing over sensitive customer information to credit reference agencies against near-universal received wisdom that student loan payment liabilities will not be considered by mortgage companies and other lenders (see page 33).[24] Prior to the sell-off of the loan books, the Student Loans Company (SLC) only registered information with credit agencies when someone defaulted on a payment; now Erudio is informing credit reference agencies about all those with outstanding loans that are deferred. In all fairness, the SLC could have done this too but chose not to for the past 20 years.

Furthermore, critics have accused Erudio of asking customers to fill in questionnaires that are far more intrusive than before. The forms sent out when Erudio took over the loan book seek far more sensitive data and have been described as invasive by many.[25] The previous form was a request by graduates to defer, whereas the new one appears to

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[23] Lewis, M. (2014). "The Government has sold people out over Erudio student loans", Money Saving Expert, 6 May 2014: http://blog.moneysavingexpert.com/2014/05/06/the-government-has-sold-people-out-over-erudio-student-loans

[24] Smith, M. (2014). "Student loans: Graduates deserve truth about what goes on credit files", Money Saving Expert, 10 April 2014: www.moneysavingexpert.com/news/loans/2014/04/student-loans-graduates-deserve-truth-about-what-goes-on-credit-files

[25] Ibid.

be a fact-finding exercise in order to see if the student qualifies for a deferral at the discretion of Erudio. In other words, an important switch has been made, from one where the decision to defer is being made by the student, to a plea from a student for a decision on deferral to be made by Erudio.

All this sounds fine in a less hard-nosed public sector environment, but the private-enterprise Erudio is now interpreting the data and its collection in a very different way. That leaves many past students – who had no opportunity to "shop around" for a better deal – with their hands tied and current students concerned that any "contract" they sign now, or in the future, is unlikely to last unchanged for 30 years. Erudio's behaviour outlined above may be a sign of things to come for students unlucky enough to be caught up in this tranche of loans. It should be noted, furthermore, that such private sector institutions – be they the educators or the lenders – are also less likely to be burdened by Freedom of Information requests than their public sector counterparts.

Bring in the bailiffs

At least pre-1998 student loan holders have the protection of the Financial Ombudsman Service. They can make a formal complaint to the company, and then take it further. But what protection will post-1998 students have should the government succeed in selling off the 2015/16 loan book as outlined in the Office of Budget Responsibility's 2015 Fiscal Sustainability Report? Because of their lack of direct political or democratic accountability, together with their need for profit, private companies are far better at collecting debt than government. Tactics that governments might baulk at, such as pretending to be from one organisation when they are from another sub-contracted one, or using bailiffs to repossess a defaulter's personal goods, are the bread and butter to professional debt collectors.[26]

Lord Willetts has no worries about this and blithely states:

> ***"Selling the remaining mortgage-style student loans will allow us to reduce public debt and maximise the value of one of the Government's assets. The private sector's expertise makes it well-placed to collect this debt and the sale will also help the Student Loans Company to concentrate on providing loans to current students."***[27]

And while the government promises that it won't renege on the deal that students signed up to at the time of taking out the loan, a key aspect of the student loans system is that loans are currently with the government, rather than a private company. When, as planned, private companies take over all bets will be off.

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[26] Wyness, G. (2014). "Why the government shouldn't privatise the student loan book", The Conversation: http://theconversation.com/why-the-government-shouldnt-privatise-the-student-loan-book-22784

[27] Boyce, L. (2013). "Government sells £900m of student loans to private firm: but whose loans are they and could the interest rate or repayment terms be changed?" This is Money: www.thisismoney.co.uk/money/cardsloans/article-2513129/How-I-know-student-loan-sold-rate-up.html

2. Graduate earnings differences

Earnings differences by university attended

Leaving aside the career-boosting elitism of an Oxbridge degree, in the 1980s when the £400,000 graduate premium figure used in Margaret Hodge's speech (see page 5) was calculated for the remaining universities (which now comprise the Russell Group), it mattered little from which university a degree had been awarded. Thus, for those careers for which a 2.1 degree was deemed necessary, employers valued a 2.1 from Bristol the same as one from Manchester or Nottingham. Following the changes introduced in 1992 by John Major's government, in which the title "university" was extended to polytechnics, this £400,000 figure may still have been relevant for Oxbridge graduates, but for the rest – and particularly among the post-1992 cohort – the evidence is far less robust.[28] Further confusion is added by the hugely varying results from the plethora of university rankings and their widely varying criteria that have mushroomed alongside the grade inflation observed over the years.[29]

In many employers' eyes, most graduates from universities tend to be lumped together, apart from Oxbridge and a few others (LSE, Durham, UCL for example). The Russell Group, which contains the Sutton Trust 13,[30] has recently accepted four more universities prepared to pay the £500,000 fee required for inclusion, and constituent members are increasing their intake of students – thus, some might argue, diluting the brand.

Figure 1, based on a Sutton Trust report, reveals the marked differences in starting salaries between, and within, these tiers:

As the Sutton Trust report puts it:

> ***"Graduates from the generally less selective post-92 universities have an average starting salary of approximately £18,009 per year, whereas average starting salaries for Oxbridge graduates were around £7,600 (42%) per year higher at £25,582. Between these two extremes there was a clear earnings gradient. Graduates from ST13 universities enjoyed average starting salaries approximately £1,280 (6%) higher (£22,311) than ST30 graduates (£21,031) who in turn earned £1,348 (7%) more than other pre-92 graduates (£19,684) who in turn earned £1,675 (9%) more than graduates from post-92 institutions."***[31]

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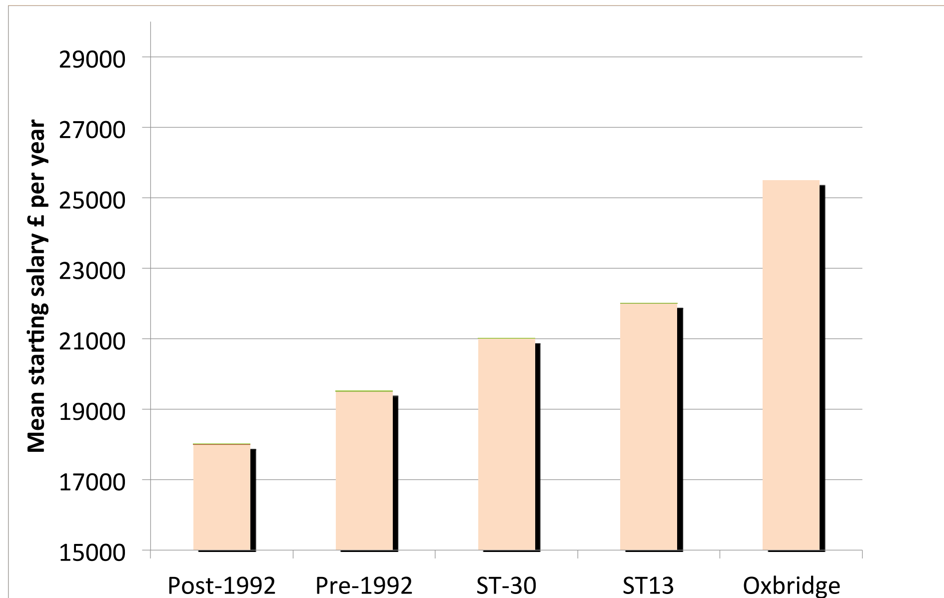
[28] Graduates from just two universities, Oxford and Cambridge, with a little over 1% of the annual undergraduate intake, account for 75% of senior judges, nearly 60% of the Cabinet, nearly 60% of permanent secretaries, 50% of diplomats, nearly 50% of newspaper columnists and more than 40% of public body chairmen. Milburn, A. (2014). "Elitist Britain?": www.gov.uk/government/uploads/system/uploads/attachment_data/file/347915/Elitist_Britain_-_Final.pdf

[29] Ware, A. (2015). "The Great British Education 'Fraud' of the Twentieth and Twenty-First Centuries", *The Political Quarterly*, 86(4); pp.475-84.

[30] **ST-13, Sutton Trust 13 members:** University of Birmingham, University of Bristol, University of Cambridge, Durham University, University of Edinburgh, Imperial College London, London School of Economics, University of Nottingham, University of Oxford, University of St Andrews, University College London, University of Warwick, University of York.
ST-30, Sutton Trust 30 members: The ST13 above plus the Universities of Bath, Cardiff, Exeter, Glasgow, Lancaster, Leeds, Leicester, Liverpool, Manchester, Newcastle, Reading, Sheffield, Southampton, Strathclyde, and Surrey, plus King's College London and Royal Holloway College

[31] De Vries, R. (2014), op. cit.

Figure 1: Mean graduate starting salary by university type[32]



The report argues that the subjective reputation of the institution in the workplace comes before any objective ranking of teaching quality, both when a prospective undergraduate is assessing the value of a university and when a prospective employer is assessing the value of a graduate. Employers faced with a hundred graduate applications, in most areas and certainly in the professions, are probably going to filter first by where the degree was earned, with Oxbridge in nearly all cases at the top of the pile. Next they are likely to consider applicants from the Russell Group and perhaps select those from other institutions who achieved a first-class degree. Only once these applicants have been interviewed, and the positions remain unfilled, will those from elsewhere be considered.

Earnings differences by subject studied

The Sutton Trust report (cited above) also explains that wage differences by subject area are even more substantial, with graduates from medicine and dentistry courses (the highest-earning subjects) achieving starting salaries approximately £12,200 higher than those studying design and creative arts (the lowest-earning subjects). The higher starting salaries for these professions skew the average graduate premium across the board.

Figure 2, based on data from the Sutton Trust, demonstrates the huge variation in starting salaries by subject.

[32] Source: De Vries, R. (2014). "Earning by Degrees: differences in the career outcomes of UK Graduates", Sutton Trust.

Figure 2: Mean graduate starting salary by subject[33]

Subject	Mean starting salary (£ per year)		
	15,000 – 20,000	20,000 – 25,000	25,000 – 30,000
Design & creative arts			
Psychology			
Journalism & media studies			
English			
Sport science			
Hospitality, leisure, sport & tourism			
Biological sciences			
Architecture			
Law			
Social science			
History & philosophy			
Area studies			
Agriculture & related			
Languages, linguistics & classics			
Combined			
Physical sciences			
Business management			
Social work			
Materials technology			
Education			
Applied computing			
Veterinary medicine			
Subjects related to medicine			
Other building & landscaping			
Maths			
Computer science			
Economics			
Engineering & technology			
Medicine & dentistry			

Numbers alert

When considering the "graduate premium" that people in the medical profession might enjoy, it is important to put into perspective their starting salary. Despite five years of self-funded medical school study and resultant huge debts, the average starting salary is around £23,000 per year, which for the supposed maximum 56 hour week works out at £7.89 per hour. This is less than many supermarkets pay shelf stackers and certainly will not prevent their student debt rising substantially in the early years post-graduation, thus severely reducing any potential graduate premium.

Earnings differences by gender

In their 2002 paper "Sheer Class?",[34] Naylor et al. found that gender has a significant effect on graduate earnings. Their raw data showed "female average earnings are about

[33] Source: De Vries, R. (2014), op. cit.
[34] Naylor, R., Smith, J. and McKnight, A. (2002). "Sheer class? The extent and sources of variation in the UK graduate earnings premium", .LSE STICERD Research Paper No. CASE054: https://core.ac.uk/download/files/67/93898.pdf

76% of male average earnings". Figure 3 (from BIS Research Paper 45)[35] analyses the variation in the graduate premium for men and women by undergraduate degree subject. Again, it shows the wide variation in the levels of graduate premium, and that the graduate premium for medicine and dentistry far exceeds that of other subjects.

Figure 3: Variations in graduate premium by undergraduate degree subject

Subject	Graduate Premium (£000)									
	-50	Up to 50	Up to 100	Up to 150	Up to 200	Up to 250	Up to 300	Up to 350	Up to 400	Up to 450
Medicine & dentistry										
Subjects allied to medicine										
Biological sciences										
Veterinary sciences										
Agriculture										
Physical/environ. sciences										
Maths & computer sciences										
Engineering										
Technologies										
Architect, building & planning										
Social studies										
Law										
Business & admin studies										
Mass comms & documentation										
Linguistics, classics & related										
European languages & lit										
Non-European language & lit										
Historical &philosophical studies										
Creative arts & design										
Education										
Average			**£120,512**							
			£82,371							

Men
Women

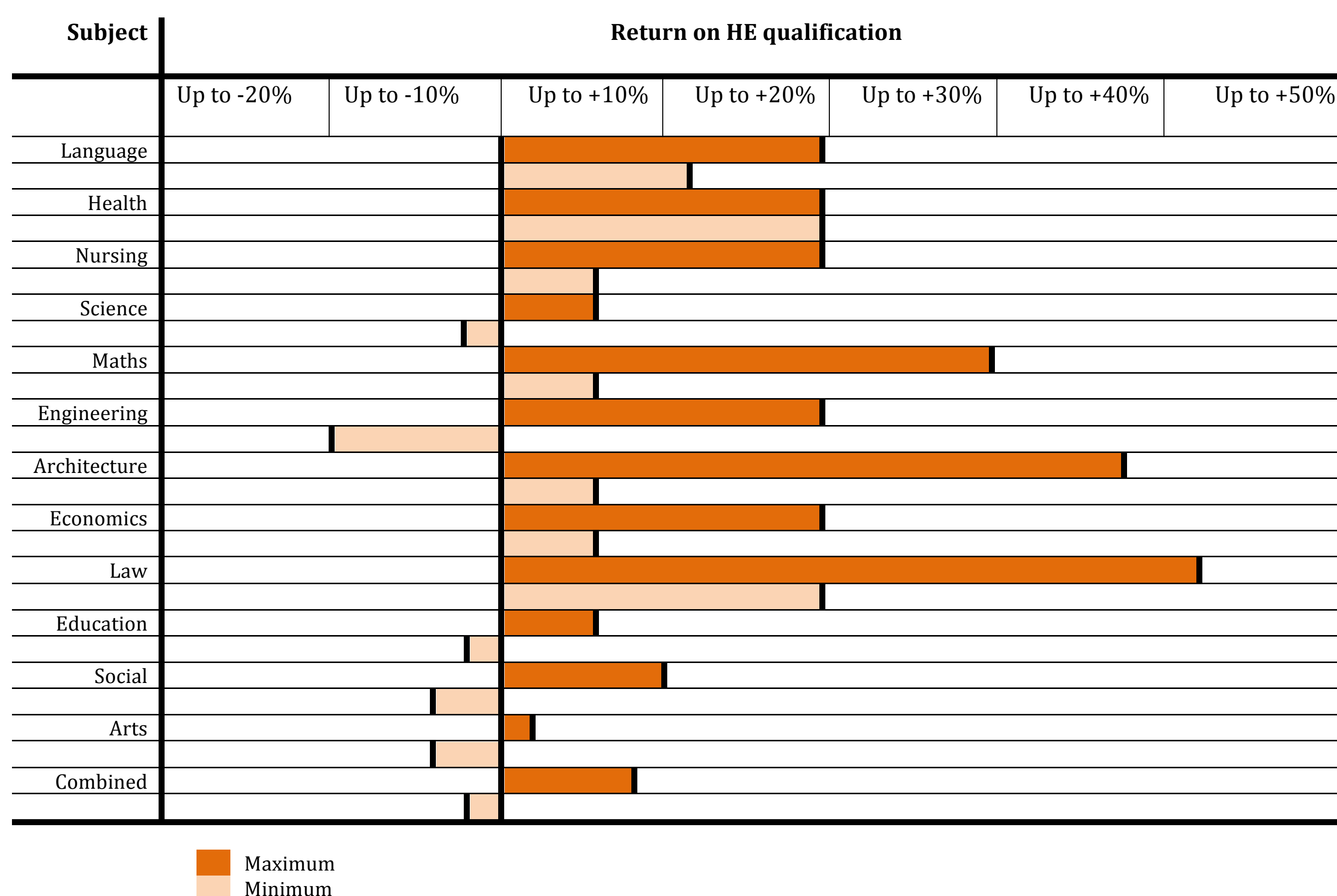
(Source: BIS Research Paper 45)

[35] Conlon.G, Patrignani, P. (2011), Department for Business, Innovation and Skills Research Paper 45: Returns to Higher Education Qualifications. London Economics: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32419/11-973-returns-to-higher-education-qualifications.pdf

Earnings differences by year of graduation

Studies have examined and proven a link between the year that students start or finish their course, and the graduate premium. Graduating in 2008, immediately following the "Great Recession", was not a vintage year, and more so because both the availability of employment, and employment success in the first few years after university can significantly affect a graduate's long-term career.[36] Entering the workforce in a "buyers' market", when graduate positions exceed supply, will raise both starting and future earnings. Entering in a recession, when a graduate may be unemployed for a while or might be forced to take a non-graduate job, will generally reduce future earnings and any premium he or she might have expected. Students who started at university in September 2005 and graduated in 2008 would not have anticipated starting work just as the Great Recession began and graduate opportunities tanked.

Figure 4: Variation in returns (maximum and minimum) by year of starting a degree course (between 1993 and 1999)[37]



Source: Walker and Zhu[38] via Ainsworth[39]

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[36] Oreopoulos, P., Von Wachter, T. and Heisz, A. (2006). *The Short- and Long-Term Career Effects of Graduating in a Recession: hysteresis and heterogeneity in the market for college graduates*, No. w12159, National Bureau of Economic Research. 2008 update: http://ftp.iza.org/dp3578.pdf
[37] Walker and Zhu, op cit.
[38] Ibid
[39] Ainsworth, P. (2014). "Universities Challenged: funding higher education through a 'free market' graduate tax", Institute of Economic Affairs (IEA), Discussion Paper 57, October 2014.

Figure 4 reveals the minimum and maximum returns for graduates by subject, when starting their course in the years from 1993 to 1999. This might be some 20 years ago, but the large variation in possible outcomes during these years suggests that any graduate premium depends quite substantially on the student's year of entry (and hence year of graduation), and economic circumstances over which they have no control.

Earnings differences in the era of rampant grade inflation

A study by the Association of Graduate Recruiters in 2012 reports increasing numbers of employers restricting recruitment programmes to applicants with the very best degrees from only the best institutions because of the high number of students now awarded top grades, and concluded that this will raise fresh concerns over university "grade inflation".[40]

Figures published in 2012 by the Higher Education Statistics Agency reveal that the number of first-class degrees increased by 14% in just 12 months and 125% in the decade before 2011.[41] A record 53,215 undergraduates – one in six – finished courses in 2011 with top degrees. OECD research findings published in 2013 found that more people under 30 years of age in the UK achieve first-class degrees than in any other country in the world, with the sole exception of Poland.[42]

These rises dramatically outstrip the overall increase in the student population over the same period and have provoked fears that some academics are coming under pressure to raise students' marks and ultimate grades in order to boost universities' positions in league tables. This would inevitably increase competition among graduates for well-paid professional jobs during an economic downturn.

Alan Ware, writing in *The Political Quarterly*, states that, prior to 1980, the distribution of degrees among the varying degree classes resembled a bell-shaped curve.[43] Just 5–8% of graduates achieved first-class degrees, and typically only about 20% obtained 2.1 degrees. Most students received a 2.2 (40–50%) with the remaining 20% achieving third-class degrees or pass degrees. This meant that for those employers who needed to attract the highest achieving students, the pool of suitable applicants was relatively small. Employers therefore had confidence that, when evaluating applicants, similar standards had been used in all the different universities at the time.

Post the 1992 explosion in numbers of students attending universities, and the resulting reduction in overall standards, the situation changed radically. Universities came under

[40] Paton, G. (2012). "Warning over 'grade inflation' as first-class degrees double", *The Telegraph*, 12 January 2012: www.telegraph.co.uk/education/universityeducation/9011098/Warningover-grade-inflation-as-first-class-degrees-double.html
[41] De Vries, R. (2014). "Earning By Degrees: differences in the career outcomes of UK Graduates", Sutton Trust.
[42] OECD (2013). "Education at a Glance 2013: OECD Indicators", OECD Publishing, Paris: http://dx.doi.org/10.1787/eag-2013-en
[43] Ware, A. (2015). "The Great British Education 'Fraud' of the Twentieth and Twenty-First Centuries", *The Political Quarterly*, 86(4); pp.475-84.

pressure to ensure that their graduates were as competitive as possible in the job market, and the control over standards previously exercised through, for example, the use of external examiners, weakened. There was an upsurge in the proportion of degrees awarded in the upper range, with the 2.2 becoming rare and the third-class and pass degree nearly extinct. Table 2 demonstrates how the awarding of first-class degrees has changed over time.

Graduates now live in a world in which many employers demand a 2.1 degree. The awarding of 2:1 degrees has increased in many Russell Group university departments and up to 100% attain a first or 2:1. Other means therefore have to be found of filtering out and qualifying this large cohort of "highly qualified" applicants. To fill previous graduate-level jobs, many employers now ask for a post-graduate degree and, if not, they certainly take note of the institution from which the candidate graduated.

A point to note is that in the USA the elite Ivy League universities (Brown, Columbia, Cornell, Dartmouth College, Harvard, University of Pennsylvania, Princeton, Yale) **never** increase undergraduate numbers in order not to "Dilute the value" of their brand. British universities, on the other hand, now have no cap on numbers should they wish to expand, and nearly all, bar Oxbridge, are doing so. The University of Bristol's psychology undergraduate course, for example, admitted 88 students in 2010 and 167 students in 2015. The Ivy League's and Oxbridge's wish not to expand while all others are mushrooming can only strengthen their elite position.

Table 2: Grade Inflation[44]

Year	Number of Firsts	Percentage of Firsts	Year	Number of Firsts	Percentage of Firsts
1995	16,800	7	**2004**	**29,700**	**11**
1996	**17,400**	**7**	**2005**	**32,465**	**12**
1997	**18,400**	**7**	**2006**	**34,825**	**12**
1998	**19,500**	**8**	**2007**	**36,645**	**13**
1999	**20,700**	**8**	**2008**	**41,150**	**13**
2000	**21,800**	**8**	**2009**	**43,125**	**14**
2001	**23,700**	**9**	**2010**	**46,825**	**14**
2002	**26,100**	**10**	**2011**	**53,215**	**15**
2003	**28,300**	**10**			

[44] Source: *The Telegraph*/Association of Graduate Recruiters: www.telegraph.co.uk/education/universityeducation/9011098/Warning-over-grade-inflation-as-first-class-degrees-double.html

The “barista” factor

It is not just a matter of whether or not a new graduate finds employment, but also the nature of that first employment that counts: this – it has been proven – has an impact on future career and earnings progression. According to the Baker Report, more than a quarter of graduates in some subjects manage to find only lowly positions in retail, catering or bar work on graduating.[45] Table 3 compares the percentage differences in these starting jobs for graduates by subject studied.

Table 3: Employment of graduates (with their differing subject degrees) in retail, catering, waiting and bar jobs six months after completing a first degree (2012)[46]

Area of study	% of graduates in work who had retail, catering, waiting and bar jobs	Area of study	% of graduates in work who had retail, catering, waiting and bar jobs
Fine arts	29	Politics	15.4
Media studies	26.7	Languages	15.2
Performing arts	23.5	All employed graduates	13.7
Design	23.1	Business and management	13.7
Sociology	22.7	Chemistry	13.1
Physical & geog. sciences	22.1	Finance & accountancy	11.3
History	21.1	Computer science & IT	10.5
English	21.4	Maths	9.3
Biology	20.8	Physics	9.0
Law	19.8	Electrical engineering	8.8
Psychology	18.9	Economics	7.9
Geography	18.8	Architecture & building	7.9
Sports science	17.4	Mechanical engineering	5.6
Marketing	15.9	Civil engineering	4.7

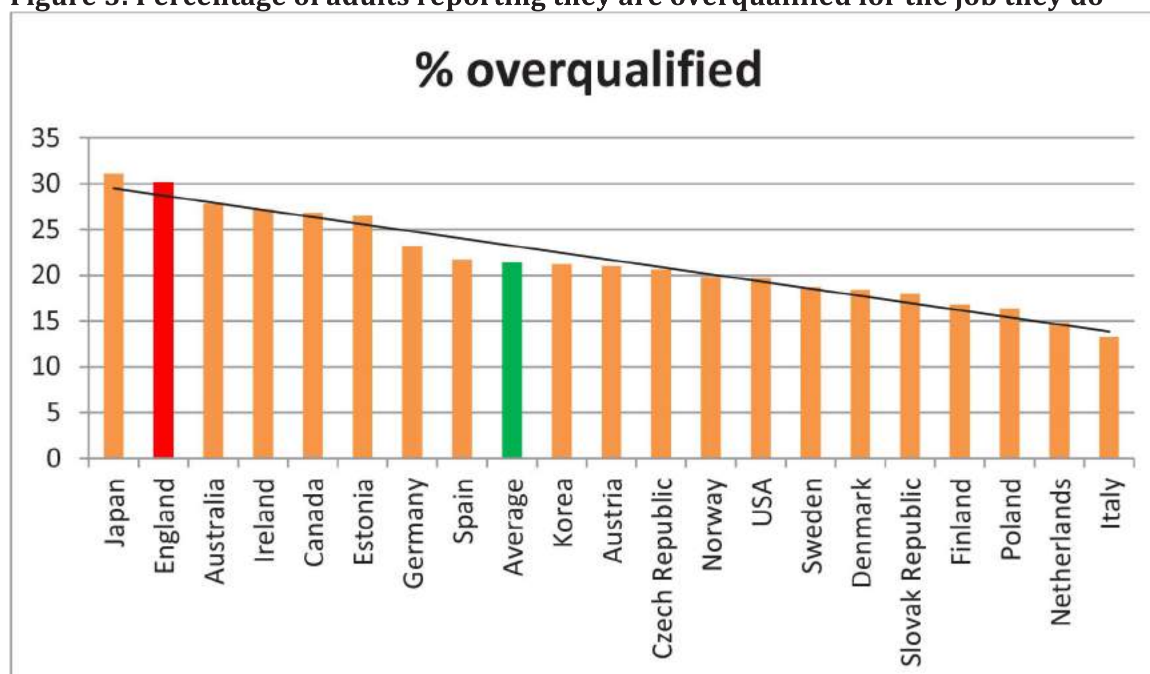
Graduates now find themselves applying for jobs not previously requiring a degree (such as sales, estate/recruitment agency, admin.), where employers, previously requiring A Levels or less, now demand an upper second-class degree. There was a time when the graduate premium was over and above any salary achieved from skilled and professional jobs, but now the ceiling at which a degree is necessary has been lowered and many more jobs require degrees, e.g. the police, nurses, laboratory technicians, and draftsmen. In addition to this apparent devaluation, according to the ONS, in 2013 47% of graduates were in non-graduate jobs, up from 36% in 2002. Therefore, not only are more jobs requiring degrees but, due to the glut of graduates, still more fail to get even those, reducing any premium still further.

In 2015 Bill Gates commented, *“By 2025 two thirds of jobs in America will require education beyond high school.”* The question is, therefore, how many of these jobs are the same ones that exist now or existed 5, 10, 20 years ago, and did not previously require a degree, and how many genuinely do require a degree and are thus worth the debt?

[45] Higher Education Careers Services Unit (HECSU): “What do Graduates Do?”, September 2013: http://www.hecsu.ac.uk/assets/assets/documents/WDGD_sept_2013.pdf
[46] Source: *The Telegraph*/Association of Graduate Recruiters, .op. cit.

“The Skills Mismatch” report, chaired by Lord Baker, stated that the UK has more overqualified workers than any OECD country other than Japan.[47] The OECD’s survey of adult skills, published in 2013, allows us to compare England with 19 other OECD member states (see Figure 5 below). This is not to say that England is unique in this respect: in every country workers report that they are overqualified for the jobs they are doing. But it does reveal where, on an international scale, England’s tertiary education policy has landed its graduates.

Figure 5: Percentage of adults reporting they are overqualified for the job they do[48]



Walker and Zhu, using the Standard Occupational Classification (SOC), confirmed in 2005 that graduate earnings’ premiums were holding up for those qualified in the relevant subjects going into highest SOC jobs such as law, accountancy and engineering.[49] However, they also identified that the graduate premium was falling among those who studied less job-specific subjects. This echoed earlier research by Conlon in 2001 showing that, for men at least, vocational training at all levels, including degrees, gained a higher premium than non-vocational training at similar levels.[50]

[47] Lord Baker of Dorking (Chair) (2014). “The Skills Mismatch”, The Edge Foundation: http://www.edge.co.uk/media/130721/the_skills_mismatch_march_2014_final.pdf

[48] Source: McGettigan, A. (2013). *The Great University Gamble: money, markets and the future of higher education*, Pluto Press, London.

[49] Walker, I. and Zhu, Y. (2008). “The College Wage Premium and the Expansion of Higher Education in the UK”, *The Scandinavian Journal of Economics*, 110(4), pp.695-709.

[50] Conlon, G. (2001). *The differential in earnings premia between academically and vocationally trained males in the United Kingdom*, Centre for the Economics of Education, London School of Economics and Political Science (LSE).

Other factors affecting admissions and outcomes

As we have seen, various factors leading to earnings differences undermine the concept of a graduate premium and render it a misleading pretext on which to justify student debt. Here are a few more. Gender, education and socio-economic background also have a bearing on prior educational achievement, acceptance to higher-ranking institutions, final degree achieved – and any future earnings premium.

The right school!

The Sutton Trust has produced numerous excellent papers on how a tiny minority of both private and state schools account for a huge percentage of admissions to Oxbridge.

Forty schools and colleges in 2011/12 accounted for 25% of all Oxbridge admissions. Five of these alone – Eton, Westminster, St Paul's and two state sixth-form colleges (Hills Road in Cambridge and Peter Symonds in Winchester) – achieved 260 acceptances. According to the Sutton Trust, these state schools are highly socially selective, and nearly all are academically selective, and thus are dominated by pupils from higher socio-economic backgrounds. Places at the state institutions are extremely sought-after by professionals wanting their offspring to get in to Oxbridge.

Many more studies have also shown that graduates who attended private schools, particularly those who attended the top-ranked ones – St Paul's, Wycombe Abbey, Eton, Harrow etc – attract higher starting salaries than their contemporaries from state schools. This is particularly so among those from the top social classes, whether through contacts, self-confidence, social graces or other factors. It is not everyone who can ask a cabinet minister for a reference, as David Cameron did.

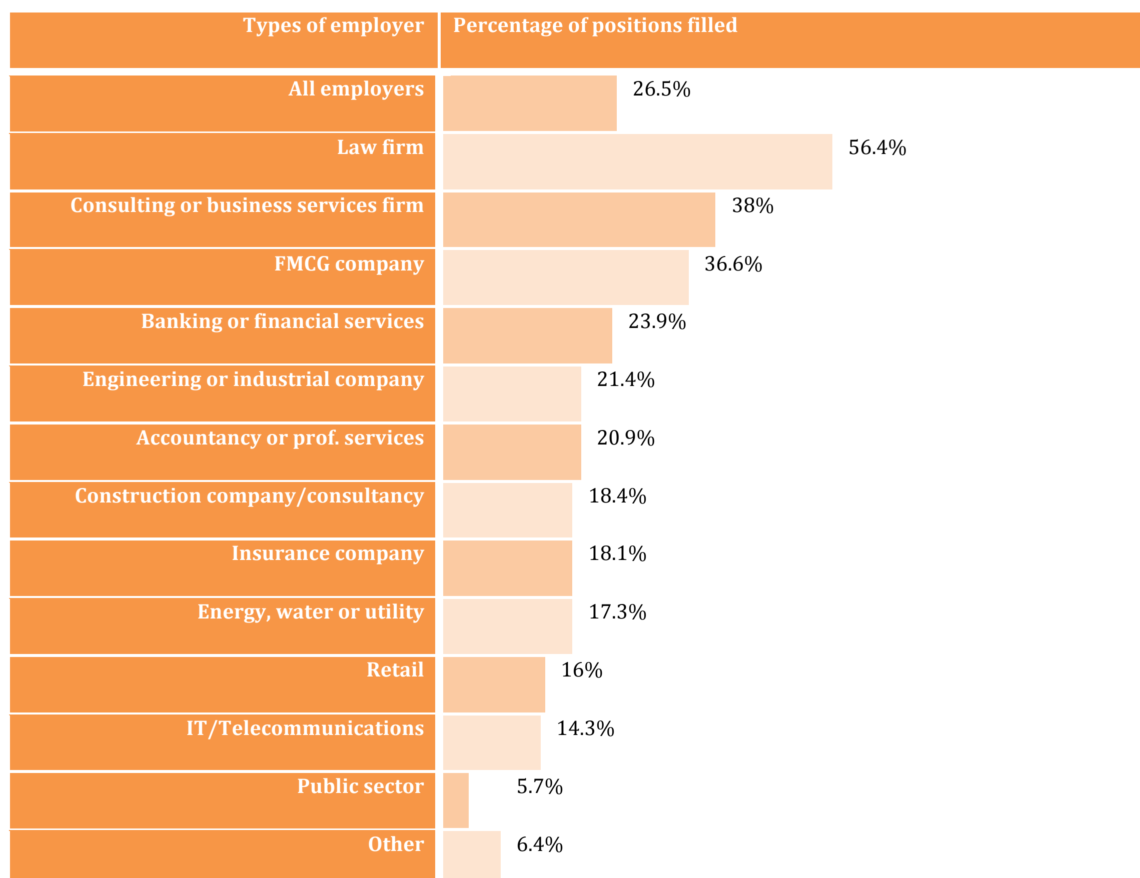
Access to internships and other placements

According to research conducted by the Association of Graduate Recruiters**,** as shown in Figure 6, across the companies they sampled, 26.5% of positions filled in 2013/14 were given to graduates who had previously worked for their employers through internships or placements, or during gap years. In total, 3,865 of the 16,953 graduates recruited during 2013–14 went on to secure employment following some kind of placement with the same company (according to employers who provided a response).

Graduates who had had a previous placement filled 54% of the positions in the law firms interviewed, 38% of the consultancy and business services firms, 36% of the fast-moving consumer goods (FMCG) companies, and 23.9% of the banking or financial services firms.

The tricky thing is that these are often unpaid or expenses-only opportunities and generally it is only the privileged middle and upper classes who can afford to work free of charge, or for a negligible amount of money, for an extended period, often away from home.

Figure 6: Number of positions filled by graduates who had previous contact with the employer[51]



Types of employer	Percentage of positions filled
All employers	26.5%
Law firm	56.4%
Consulting or business services firm	38%
FMCG company	36.6%
Banking or financial services	23.9%
Engineering or industrial company	21.4%
Accountancy or prof. services	20.9%
Construction company/consultancy	18.4%
Insurance company	18.1%
Energy, water or utility	17.3%
Retail	16%
IT/Telecommunications	14.3%
Public sector	5.7%
Other	6.4%

Social class and family background

Social class affects job prospects and future earnings in many professions. For example a report produced by the Civil Service themselves stated that only 4.4% of successful applicants to their fast promotion scheme are from working-class families.[52]

This figure is backed up by the Milburn Report, which went on to state that: "*in 2012, only 25 new recruits to the Civil Service Fast Stream out of more than 600 were from working-class backgrounds.*"

[51] Source: The AGR Graduate Recruitment Survey 2015, Winter Review, produced for the Association of Graduate Recruiters (AGR) by CFE Research.
[52] Civil Service Fast Stream Annual Report 2014: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/457600/Civil_Service_Fast_Stream_-_Annual_Report_2014__web_.pdf

The report also states that:

> ***"Two thirds of new entrants to journalism still come from managerial and professional backgrounds; they are more than twice as likely to do so as the rest of the population and 83% of new entrants do internships, which are on average for seven weeks and 92% of these are unpaid: this might be freezing out those from less advantaged backgrounds."***[53]

This is more than borne out, and explained in great depth, by the recent IFS working paper entitled "How English domiciled graduate earnings vary with gender, institution attended, subject and socio-economic background".[54]

As mentioned above (see page 9), students from poor families borrow more than those from other socio-economic groups. With the proposed scrapping of maintenance grants and their replacement with loans, borrowing by students from poorer families is only going to increase, while the wealthy can pay off the debt and avoid the compounded interest on the loan.

Job computerisation

By definition, graduate premiums are a projection into the future – future earnings. Job computerisation is likely to have an effect on this, but quite what effect is hard to predict. I am using research by Frey and Osborne for this section.[55] They do not claim to know for certain that a given class of work will be computerised, because the nature of the job may change, or the pay may decline; however, the inclusion in the study of many occupations that might once have been considered high-skilled, graduate-level careers suggests a greater-than-usual level of uncertainty and job insecurity over the next 30 years, just as fees are forecast to rise inexorably. The risk of computerisation will also create a potential need for lifelong retraining and learning support in the event that a chosen career ceases to exist. So job computerisation, coupled with the additional retraining debt incurred, is likely to render any earnings premium from the first degree/masters irrelevant.

Table 4 gives examples of graduate occupations likely to be computerised.

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[53] Milburn, A. (2014). "Elitist Britain?": www.gov.uk/government/uploads/system/uploads/attachment_data/file/347915/Elitist_Britain_-_Final.pdf

[54] Deardon, L., Shephard, N., Britton, J. and Vignoles, A. (2016). "How English domiciled graduate earnings vary with gender, institution attended, subject and socio-economic background", Institute for Fiscal Studies (IFS): http://www.ifs.org.uk/publications/8234

[55] Frey, C.B. and Osborne, M.A. (2013). "The Future of Employment: how susceptible are jobs to computerisation?" Oxford Martin School: *www.oxfordmartin.ox.ac.uk/publications/view/1314*

Table 4: Probability of graduate occupations being computerised by example professions [56]

Occupation	Probability of computerisation	Occupation	Probability of computerisation
Mathematical technician	99%	Paralegals and legal assistants	94%
Insurance underwriters	99%	Accountants and auditors	94%
Loan officers	98%	Tax examiners and collectors	93%
Credit analysts	98%	Real estate agents	86%
Legal secretaries	98%	Librarians	65%
Dental laboratory technicians	97%	Market research analysts	61%
Surveying and mapping technicians	96%	Marketing	61%
Compensation and benefits managers	96%	Personal finance advisors	58%
Nuclear power reactor operators	95%		

No degree

Skilled construction workers such as bricklayers or plasterers with no academic qualifications working on a big construction contract can easily earn £250 per day or more (£1,250 per week or £62,500 per annum). These in the main tend to be self-employed, with the various tax benefits this confers. Many non-graduate jobs offer the opportunity for paid overtime and have no control of, or problem with, second jobs, whereas graduate jobs tend not to pay overtime – even if working extra hours becomes normal practice. Furthermore, graduate and professional contracts mostly forbid outside work without the express permission (nearly always denied) of the employer.

Gold-standard private sector apprenticeship schemes also pay relatively well too. In 2012, a report for financial investment company Skandia included the following estimates of average lifetime earnings:[57]

Apprenticeship in construction:	£1,503,726
Apprenticeship in health care, public services & care:	£1,494,547
A degree (average):	£1,611,551

As the figure for a degree here is only an average figure, not an actual figure, it is clear that graduates do not automatically earn more than apprentices. There is therefore clear overlap between the earnings of graduates and apprentices, and current trends in the labour market suggest that the overlap will get bigger, not smaller, in the coming years.

Why bother, therefore, to study at any other than the top few institutions when a lifetime of debt will be the almost certain consequence and when these alternative options are available?

[56] Source: Frey and Osborne (2013), op cit.
[57] CoreData Research UK (2012). "First steps to wealth: a study of career and earning opportunities for young Britons", Skandia.

The erosion of the graduate premium

According to The Complete University Guide, the value of a degree had been cut by up to a third in the five years to 2014, despite a sharp rise in student tuition fees.[58] Figures show the earnings premium gained by graduates in skilled jobs has declined since the economic crisis struck. This may also be due to a rise in the student population, combined with a continuing squeeze on employment.

However, the Guide found that the size of the premium fluctuated significantly depending on students' choice of course. Students taking degrees in aspects of the building industry (materials technology and so on) or librarianship and information management saw their relative earnings grow by around three-quarters. However, at the other end of the spectrum, social policy and civil engineering graduates suffered pay declines of around one-third. Law graduates with good jobs in the legal profession lost around a fifth of their relative earnings during this period.

The Guide similarly found that the average starting salary for graduates in professional employment dropped by 11% in real terms between 2007 and 2012, from £24,293 to £21,702. Researchers analysed official data based on graduate employment and earnings six months after leaving university and found that this decline is not only continuing but is also increasing. Medicine and dentistry, both of which had the highest starting salaries in 2007, experienced reductions of 15% and 9% respectively.[59]

Dr Bernard Kingston, the Guide's principal author, said:

> ***"These figures show a continuing decline in the graduate premium across many subjects, and must be a concern to students when choosing what to study at university [with] tuition fees of up to £9,000 a year in England and Wales. It is helpful for young people considering which subject to choose to see how their earning potential for the occupations for which they may qualify changes over a short time. While financial returns should not be the only consideration, they are becoming more important, whether we like it or not. However, with a volatile labour market, it is difficult to predict the future for any particular subject."***

In stark contrast, a BIS spokesman said:

> ***"A degree is still one of the best routes to a good job and a rewarding career. Typically those with a degree earn considerably more over their lifetime, an estimated £165,000 for men and £250,000 for women. The increased number of graduates has been met by increased demand from employers which is why last year the chancellor made an historic commitment to remove the cap on the number of people who could go to university by 2015-16."***[60]

Kingston's figures would, it seems, beg to disagree.

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[58] Jobbins, D. (2014). "Starting salaries for graduate jobs decline as economic downturn bites", The Complete University Guide: http://www.thecompleteuniversityguide.co.uk/news/starting-salaries-for-graduate-jobs-decline-as-economic-downturn-bites/
[59] Ibid.
[60] "Graduate starting salaries 'drop 11% over five years'", BBC News, 14 April 2014: www.bbc.co.uk/news/education-26992728

Post-graduates take up the strain

The percentage of new job seekers with post-graduate degrees now is similar to the 13% graduate figure in 1980, when the £400,000 premium used by Margaret Hodge was formulated. In many ways this post-graduate cohort has replaced the 1980s graduate cohort in the hierarchy, and they now earn the premium that graduates in 1980 enjoyed.

Apart from the Oxbridge MA (Oxon) and MA (Cantab) degrees, many of which can be obtained merely for a ten pound administration fee, post-graduate degrees are expensive and often take two years. There are planned Master's degree loans of up to £10,000 a year for fees (but no maintenance loans), and post-graduate research loans of £25,000. Anything above this will have to be borrowed, usually at higher interest rates. And, by the way, the £10,000 loan will not cover the total cost or even the course fees for many students, who will therefore have to take out the current Professional Career Development Loans on top of this and endure their high interest rates (8–9%) and harsh five-year capital repayment terms out of any income remaining. To study for a Business Psychology Masters at the LSE, for example, costs £18,000 – the same for all students whether domestic or overseas.

Together this will add up to a sizeable figure and, with the £10,000 having to be paid back by a further 6% Willetts Tax on gross income, this will create the sort of high marginal tax rates witnessed under the Harold Wilson governments of the 1960s and 70s.

A 40% income taxpayer will therefore be further burdened with 12% National Insurance deductions plus 15% Willetts Taxes – giving a 67% marginal rate, and a top-rate taxpayer 72%. If the mooted PhD research loans attract a further Willetts Tax in addition to the above, then this could prove to be something of a disincentive either to study, or – if loans are taken – to stay in the UK. These sorts of marginal rates led to the "Brain Drain" of the 1960s and 70s and may well do again.

First announced as part of the UK's Chancellor's 2014 Autumn Statement, these government-backed postgraduate student loans have now been reconfirmed as part of the 2015 Spending Review. If they were a genuine tax there would at least be effective, democratically accountable government oversight, but they are not, and by all accounts there are no plans for more than a "light touch" oversight, if any.

3. The impact on universities

The death of the arts?

The need for a large graduate premium to cover student loans, and the Willetts Tax that comes with those, may well lead students to studying only vocational subjects directly linked to highly paid careers in the hope of paying off their debts. Law, medicine, accountancy and engineering departments will rapidly expand; arts departments will collapse at all but the most prestigious universities.

Perhaps we could follow the Australian model and charge less for certain courses rather than subsidising expensive-to-offer courses (medicine/engineering) with other cheaper courses (English/classics). While providing educational services such as "market-driven" specialisation or "vocationalisation" can help improve the career chances of students, there are concerns that these courses will limit the nation's intellectual growth, thereby undermining the public good of providing universal education, whatever any likely premium.

Universities contribute to the public good by offering students an education in subjects that they are passionate about as well as an opportunity to earn a degree that, while not directly linked to future employment, nevertheless demonstrates intelligence, perseverance, analytical thought and a whole range of skills and traits useful to an employer. It would be sad were this ethos of picking one's favourite course to be swept away in the hunt for some mythical graduate premium that allays the fear of incurring debt and the burdens of repayment.

Crisis in teaching

Will graduates studying education and wishing to become teachers choose to borrow more to fund the extra year to become a teacher in anything other than the current small number of "STEM" subjects that attract post-graduate government funding? People who wish to become teachers of psychology, for example, which is one of the most popular A Level courses, have to fund their postgraduate (PGCE) training. Is borrowing more on top of undergraduate debt a financially viable option or worth the risk, given that teachers enjoy relatively low and falling salaries?

Less "facetime", falling standards

According to the Government's Unistats website, students paying £9,000 a year tuition fees at the University of York in 2013 reading for a degree in history were receiving little over three hours teaching per week. Students were therefore paying nearly £100 per hour for teaching. At the same time, students at University College London received more than three times as much teaching, therefore paying much less for their teaching – £28

per hour.[61] With most universities now charging the maximum fees allowed, the question is therefore if almost £100 for one hour alone with one's tutor at Trinity College Cambridge or Balliol College Oxford is worth the same, or more, than sitting in a lecture hall with up to 300 other students at a red brick or post-1992 former polytechnic.

There is also concern that both entry and teaching standards have fallen in many of the post-1992 universities. A recent OECD report concludes that:

> ***"Universities can and should do more to address basic skills at intermediate level. Around one in five young English university graduates can manage to read the instructions on a bottle of aspirin, and understand a petrol gauge, but will struggle to undertake more challenging literacy and numeracy tasks. Widening participation therefore needs to be linked to improvement in the reading, basic numeracy and writing skills of university students."***[62]

The elephant in the room is the question: Should 50% of young people be doing a degree in the first place? Are many of these lower-level institutions therefore primarily revenue generators and thus debt creators rather than educators? Are we to face the huge drop-out rates (90%+) witnessed by some of the American "for-profit" universities?

Vice-chancellors' runaway pay awards

Chancellors' salaries are increasing at an enormous and, some might say, commercially unjustified rate. According to the *Daily Telegraph* on 11 January 2016, a report by the University and College Union found that:

> **"*Until his retirement the top paid vice chancellor of any University was Professor Neil Gorman of Nottingham Trent University, an averagely performing former polytechnic, whose final pay was boosted to £623,000 by 5 years' worth of bonuses in 2014. This meant that the fees of 70 students that year were required to simply cover this man's emoluments in a safe, no risk job."***[63]

This figure is not unusual. In 2015, the former Vice Chancellor of London Metropolitan University, the worst performing university in the UK, earned £618,000.[64] Twenty-five higher educational institutions saw their Head of Institution receive a 50% increase in salary, fee or profit from employment or office in 2012–13. Thirty-three institutions now pay their heads more than £300,000 per annum, with six of them (London Met, Oxford, London Business School, Open University, University of Birmingham and University of Exeter) on packages that exceed £400,000.[65]

[61] https://unistats.direct.gov.uk
[62] Kuczera, M., Field, S., and Windisch, H. C. (2016). "Building Skills for All: A Review of England: policy insights from the survey of adult skills", OECD Skills Studies: https://www.oecd.org/unitedkingdom/building-skills-for-all-review-of-england.pdf
[63] Report based on University and College Union (2015): "Transparency at the top? Senior pay and perks in UK universities", UCU, March 2015: www.ucu.org.uk/media/7115/Transparency-at-the-top-Senior-pay-and-perks-in-UK-universities-Mar-15/pdf/ucu_transparencyatthetop_mar15.pdf
[64] *Daily Mail*, 5 February 2016.
[65] UCU (2015), op cit.

Consequences for graduates

The benefits of the graduate premium, if any, will be enjoyed in later years because of salary growth and seniority. However, in the early years, the debt is likely to grow as all but the most highly paid new graduates will fail to repay even the interest. This front-end loading will undermine repayments in the short-term post-graduation period for many graduates so, in short, the graduate premium will be wiped out, with the accruing interest acting a drag on any ambitions to take on further debt by, for example, buying property, saving for a pension, travelling, having a family or in later years helping with their own children's university fees. Ultimately this may well act as a fiscal drag on the economy as a whole.

The government's fear of levying visible taxes, instead preferring "stealth taxation", has resulted in this unregulated, unquantifiable, undemocratically accountable Willetts Tax, and will ultimately render any graduate premium meaningless as a tool to establish the value of tertiary education. It is also a regressive system where poor people borrow more and pay off less, due the effects of compound interest.

Ultimately the costs will end up falling on future generations if, as a report from London Economics in 2014 estimates, as many as 60% of students will have some or all of their debts written off, which amounts to 45% of the entire value of the loan book.[66] Unless graduates in the near future enjoy a huge, as-yet-unforeseen increase in earnings across the board then the situation will only get worse, especially if tuition fees are raised further. It also means that future graduates will be burdened with a previous system's cost as well as having to bear the cost of their own funding systems, and the living costs and liabilities they may have to contend with then.

The impact of scrapping maintenance grants, and forcing students to take on even more debt, is likely to increase future debt write-offs even further, as will extending student finance to post-graduate students. Given that the government is estimated to begin losing money (compared to the pre-2012 system) once the write-offs reach 48.6% of the loan book's value, it doesn't make sense to suggest that the proposed changes will result in improved value-for-money for taxpayers either.

Student loans for both home and EU undergraduates in England (and now including post-graduate loans for MAs) have long lifetimes of up to 35 years or more if the study years are included. Due to their income-contingent nature, they display unfamiliar repayment profiles compared to other loans such as mortgages, where the majority of payments tend to fall in early years as earnings rise. These student loans fundamentally differ with the majority of repayments appearing in the later years as earnings rise, by which time

[66] Conlon, G. (2014). "The Higher Education Fees and Funding Reforms in England: what is the value of the RAB charge on student loans for the treasury to break-even?" London Economics: http://londoneconomics.co.uk/wp-content/uploads/2014/03/Whats-the-breakeven-associated-with-the-reforms-of-Higher-Education-Final-Version-docx.pdf

unpaid compound interest will have substantially increased the debt. This will all fall on the shoulders of future taxpayers if unpaid by the borrowers.

Negative effect on future mortgage borrowing

In a letter sent to the Author in February 2011, Mr (now Lord) Willetts, mentions that, *"having a student loan should not impact on a borrower's credit rating. The Council of Mortgage lenders advises that a student loan is very unlikely to materially impact on an individual's ability to get a mortgage. However a reduction in net income is likely to result in a commensurate reduction in the amount a mortgage lender is willing to lend."* This is correct in terms of a graduate's ability to *obtain* a mortgage; however, it will reduce the size of any mortgage granted because a reduction in net income is likely to result in a commensurate reduction in the amount a mortgage lender is willing to lend.

He goes on to state, "*As this amount is usually linked to a borrower's net income, increasing the repayment threshold on loans will mean that graduates actually pay back less each month and will leave more net income available to them."* Sadly this is not as much as they would have had, had they not been forced in most cases to take loans, and anyway the Government unilaterally and without debate froze the threshold.

Because they will be able to borrow less and thus get a less valuable house, then any value increase and future equity will be reduced. This over 30 years will probably exceed all but the largest premiums. The letter can be read in Appendix 2.

The new funding model: private universities

Specialist private, for-profit colleges are already beginning to appear in England and not always totally successfully. These specialise in a limited number of vocational courses or, like Buckingham University, offer a compressed two-year degree. Considering the long holidays and tiny lecture load on most undergraduate courses, certainly in the arts, this truncation and perceived money-saving offered by private for-profit institutions could become the norm. However, one only has to look at the American experience (see below) to understand what can happen without strict oversight and indeed regulation. There the average debt is around £20,000 at current exchange rates, far less than will be the average here with the highest fees for public universities in the world.

Not only will student numbers be allowed to increase at the sole discretion of institutions, but in addition, universities will be allowed to increase £9,000-a-year tuition fees in line with inflation as long they are providing what Chancellor Osborne described as "high-quality teaching". The proposed Teaching Excellence Framework is going to judge teaching standards and thus act as a vehicle for fee increases. To quote the November 2015 Government Green Paper:

> “*The Government has a manifesto commitment to introduce a framework for excellent teaching. The new Teaching Excellence Framework (TEF) aims to recognise and reward high quality teaching. Prospective students will be able to use the TEF results to help inform their decisions about which institution to attend, and employers can consider it in their recruitment, rather than relying on the more imperfect proxies for teaching quality such as research success. The TEF will increase students' understanding of what they are getting for their money and improve the value they derive from their investment, protecting the interest of the taxpayer who supports the system through provision of student loans. It should also provide better signalling for employers as to which providers they can trust to produce highly skilled graduates.”*[67]

The same paper goes on to reveal the income-generating objective of university expansion:

> *“Those providers that do well within the TEF will attract more student applications and will be able to raise fees in line with inflation. The additional income can be reinvested in the quality of teaching and allow providers to expand so that they can teach more students.*
>
> *“We hope providers receiving a lower TEF assessment will choose to raise their teaching standards in order to maintain student numbers. Eventually, we anticipate some lower quality providers withdrawing from the sector, leaving space for new entrants, and raising quality overall.”*[68]

The 2016 White Paper and the Queen's Speech in Parliament on 16 May 2016 reinforced these objectives.

Experts fear that removing the cap on student numbers will further raise graduates' debt levels and open the way for increasing and increasingly variable fees at different institutions. If past experience is anything to go by, there will be a general rise to the new maximum, whatever that might be.[69]

Will the main driver of where a student should study – now that they are paying hugely for the privilege – be what their career prospects are likely to be? And will there be any meaningful graduate premium that will be enough to cover the interest on and principal of the loan? However high the teaching level might be at institutions, if the institution has no reputation with future employers, it is unlikely to increase students' chances of securing graduate-level employment.

It has been suggested that universities should eventually have entirely independent funding streams and could be released from all regulation over undergraduate courses. If this is the case, who is to ensure that the Teaching Excellence Framework gives reliable

[67] Government Green Paper: “Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice”, BIS-15-623, November 2015.
[68] Ibid.
[69] Ainsworth, P. (2014). “Universities Challenged: funding higher education through a ‘free market’ graduate tax”, Institute of Economic Affairs (IEA), Discussion Paper 57, October 2014.

results and has teeth? According to Stefan Collini,[70] the government has made it much easier for institutions to acquire the title and status of a university, once so jealously protected. There is, surprisingly, no requirement to have a spread of subjects or to offer postgraduate degrees, and it has now been decreed that no more than 750 students need to be following degree-level courses at an institution for it to be classed as a University and thus attract government-backed loans for its students.[71] An essential step for any new provider of a course is to get its course "designated" so that its students are eligible for these loans. There are now such courses at more than 150 private institutions, more than the total number of UK universities and "approval was recently given to 98 Edexcel courses at University College Kensington within four days of their application being received."[72]

Collini also stresses that if an existing college is subject to a private capital buy-out it will still be allowed to keep its precious degree-awarding powers, even though the "charitable" institution may have become part of a larger corporate empire:

> ***"Anyone who thinks the change in 2010 was merely a rise in fees, and that things have settled down and will now carry on much as usual, simply hasn't been paying attention. This government's whole strategy for higher education is, in the cliché it so loves to use, to create a level playing field that will enable private providers to compete on equal terms with public universities. The crucial step was taken in the autumn of 2010 with the unprecedented (and till then unannounced) decision to abolish the block grant made to universities to support the costs of teaching – abolish it entirely for Band C and Band D subjects (roughly, arts, humanities and social sciences) and in substantial part for Band A and B subjects (roughly, medicine and the natural sciences). From the point of view of private providers, that change removed a subsidy to established universities which had hitherto rendered private undergraduate fees uncompetitive in the home market."***[73]

Warnings from America

In the US, concerns about the experience with for-profit universities, where these universities are free to set their own fee levels with no reference to the value of their courses in terms of future earning power, reached a point where, in the summer of 2010, the Obama Administration proposed a restriction – and in extreme cases a closure of programmes – at institutions where graduates ended up with the highest debts relative to their salaries and who therefore had the most trouble repaying their student loans. Several institutions are being sued, as are their backers, by dissatisfied students who feel they have been mis-sold on numerous counts.[74]

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[70] Collini, S. (2013). "Sold Out", *London Review of Books*: http://www.lrb.co.uk/v35/n20/stefan-collini/sold-out
[71] Ibid.
[72] Ibid.
[73] Ibid.
[74] Hechtinger, J. (2010). "Degree Profitable for Goldman Wasn't Worth It", *Bloomberg*, 6 August 2010.

Ainsworth comments that *"It is unfortunate that the UK has been following the US down the road of ever higher tuition fees not linked to earning power just at the time when the US is questioning such an approach."*[75]

According to the University and College Union, cracks are beginning to appear in this model in the UK too. The American experience has shown that without strict oversight and regulation our rapid expansion of for-profit tertiary education could be dangerously naive. Over there, many of the for-profit institutions spend more on marketing and recruiting and take more in profit than they invest in teaching, while turning out a few graduates with degrees of no commercial value. A few graduates? The rest, up to 90% in some institutions, simply drop out.

An alternative funding model

The 2010 Browne Report on university funding summed up the situation prior to the recent fee increase:

"We estimate that only the top 40% of earners on average will pay back all the charges paid on their behalf by the Government upfront; and the 20% of lowest earners will pay less than today. For all students, studying for a degree will be a risk-free activity. The return to graduates for studying will be on average around 400%."[76]

Post the recent increase in fees to £9,000 per annum, the return figure mentioned above is of course nonsense as a figure for all graduates.

Perhaps a government brave enough to impose any form of non-stealth tax will bite the bullet and do what the Browne report suggested in the first place. It recommended a far fairer way of recouping the loans would be to fund tertiary education by an extra graduate income tax. It would not be regressive, would not lead to unquantifiable, hideously mounting debt, and would avoid the uncertainty of interest rate fluctuations. It would also have some democratic accountability, in as much as this tax would be controlled directly by and be the responsibility of a democratically elected government rather than a private sector entity with no such direct democratic constraints. Finally it would be linked not only to a graduate's ability to pay but also to the increased income benefits he or she enjoys from that degree.

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[75] Ainsworth, P. (2014), op. cit.
[76] Browne, J. (2010). "Securing a Sustainable Future for Higher Education", Independent Review of Higher Education Funding and Student Finance, Department for Business, Innovation & Skills: www.gov.uk/government/publications/the-browne-report-higher-education-funding-and-student-finance

Conclusion

Putting a value to an average graduate premium is like putting a colour to the sound of running water.

The average graduate premium figure is impossible to quantify, and any figure quoted generally depends on whether it is being used to sell something (tuition fees to undergraduates or the loan book to private institutions) or to buy something (institutions demanding changes/raises in tuition fees). There are simply too many variables and anomalies, as described in this paper, and its use as anything other than an academic exercise looks more and more like scandalous mis-selling.

While for an "Oxbridge First" Hodge's graduate premium figure of £400,000 may remain broadly true, the graduate premium is much less for non-Oxbridge graduates now that more than 50% of young people go on to study in higher education in the UK. According to the latest government consultation paper on the subject,[77] the graduate premium has been decreasing in increments to around £100,000 as an average across all subjects, degree classes and universities attended. Whatever the figure, the same paper confirms that it is still falling.

This present paper argues that the increasing number of graduates – especially those with non-vocational degrees from institutions without the reputations of a few elite universities – is further undermining the value of a degree. This leads employers to increase the level of qualifications needed to apply for jobs at their organisation. In short, we have created a self-perpetuating upward pressure on young people to get ever more qualified, therefore having to take on ever more debt in order to set themselves apart from other applicants. As more people become graduates, is it any surprise that previously low-to-median paid jobs now demand graduate-level qualifications? Not on any required intellectual level, but just because graduates are available, in huge numbers. Job descriptions for a police constable, nurse, market researcher, advertising salesman or sales support worker are now not only specifying a degree, but in many cases also demanding an upper second-class degree – a classification which is now being handed out like confetti (as mentioned earlier, some departments at "Red Brick" universities are handing out upper second- or first-class honours to all (100%!) of their students). There is no possible intellectual argument for requiring a degree, let alone an upper second-class degree, in order to be able to sell advertising space. This leaves in the main only the most menial, low-paid, zero-hours or part-time jobs not being filled by graduates – jobs that an employer simply could not demand a degree for with a straight face.

One has to ask two simple questions therefore: A graduate premium over what? And a graduate premium over what level of income? Post-graduates won't escape this phenomenon either: the number of graduates going on to attain MSc qualifications has never been higher, and now PhD places are under pressure.

The need for a large graduate premium to justify student loans and the Willetts Tax may well lead students to study only vocational subjects directly linked to highly paid careers

[77] Department of Business, Innovation and Skills (BIS): 15 623 "Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice", 2015.

in order to pay off their debts, especially if the terms of repayment change radically for the worse in the future. Law, medicine, accountancy and engineering departments will rapidly expand; arts departments will collapse at all but the most prestigious universities. One could ask therefore: why bother to study at any other than the top few institutions when a lifetime of debt will be the almost certain consequence? What then of the public good of having a huge range of purely academic courses on offer?

Paying off these huge, unquantifiable and relatively unregulated debts will wipe out any graduate premium in all but the highest-paid professions and for all but the most successful people in business or other fields. Will relatively low-paid nurses and police constables, for example, want to risk these huge, unregulated debts, and the possibility of becoming in effect indentured to an as-yet-unknown private banking entity? Will graduates wishing to become teachers choose to borrow more to fund the extra year to become a teacher in anything other than the current small number of "STEM" subjects which attract post-graduate government funding?

No matter what unquantifiable, subjective quality controls – such as the Teaching Excellence Framework (TEF) – are put in place, the planned deregulation of the sector that Lord Willetts advocates, and indeed is confirmed in the recent Government White Paper, could well result in an evolution of English universities echoing America's experience. The new "for-profit" colleges could end up as little more than debt-generating engines with lower and lower entry standards and huge drop-out rates blighting the financial future of a generation of graduates – and ultimately the entire economy.

Appendix 1

Letter from Martin Lewis to David Cameron

MoneySavingExpert.com

The Prime Minister
10 Downing Street
London, SW1A 2AA

12 January 2016

Dear Mr Cameron,

I feel compelled to write to you over the decision to retrospectively change the terms of student loans.

In 2011 I was appointed head of the Independent Taskforce on Student Finance Information. I worked with your ministers who said, unambiguously, that from April 2017 the £21,000 repayment threshold would start to rise annually with average earnings. This information was then communicated to students and formed a core part of the calculations about how much university would really cost them – including in student loan repayment calculators.

The decision to backtrack on this is hugely damaging. It means many lower- and middle-earning graduates will repay thousands more over the life of their loans.

However, even more important than the additional cost is the message this sends. The regulator would not allow any commercial lender to make a change to its terms this way. It is therefore surely wrong for the Government to do so – retrospective changes have always been seen as bad governance.

Of course there was a consultation before the change. I and many others responded to it. Yet only 5% of consultation responses were in favour of this change; 84% were against it – so I am confused why, despite such cross-society opposition, your Government pushed ahead with the retrospective change anyway?

As you may be aware, I have personally engaged lawyers who are currently looking at whether this change can be challenged legally. Yet this is just as much a moral issue as a legal one. A retrospective change will destroy any trust current and future generations can have in the student finance system, and perhaps, even more widely, in the political system as a whole.

The repercussions of this loss of trust may be far-reaching. Although I had reservations about the student finance changes made in 2012, I always believed it was more important to explain the practical realities of the system so no student was wrongly put off due to misunderstandings. But how can anyone in good conscience now explain student finance to young people when the system can be unilaterally changed, even after they've signed their loan contracts?

I ask you to take a personal interest in this decision and look at reviewing it. Present and future generations must be able to trust the Government to keep its word on student finance.

I would also ask to come and meet you to discuss this issue, and invite some affected students, graduates and their parents. That way we can explain why we think this is so important – and to see if there is a way the damage can be mitigated.

Yours sincerely,

Martin Lewis
Founder of MoneySavingExpert.com and former head of
the Independent Taskforce on Student Finance Information

Appendix 2

Letter from David Willetts, Universities Minister, to Steve Kemp-King via Mary Mcleod MP

BIS | Department for Business Innovation & Skills

The Rt Hon David Willetts MP
Minister for Universities and Science

Our ref: 232049
Your ref: BI2662

Ms Mary Macleod MP
House of Commons
London
SW1A 0AA

1 February 2011

Dear Mary,

HIGHER EDUCATION FUNDING

Thank you for your letter of 17 January, on behalf of your constituent, Mr Stephen Kemp-King of 41 Lateward Road, Brentford TW8 0PL, about higher education funding.

We have already given a lot of detail about our proposals. The finer details of the new progressive repayment policy is currently being determined and more information will be available in due course. However, Mr Kemp-King has posed a number of questions, which I would like to respond to.

Student loans will accrue interest from the day that they are paid out, until they are repaid in full. Interest is compounded, which means that interest charged in any given year is based on the current outstanding balance (which is the amount borrowed, plus previous interest but minus any repayments).

Having a student loan should not impact on a borrower's credit rating. The Council for Mortgage Lenders advises that a student loan is very unlikely to materially impact on an individual's ability to get a mortgage. However, a reduction in net income is likely to result in a commensurate reduction in the amount a mortgage lender is willing to lend. As this amount is usually linked to a borrower's net income, increasing the repayment threshold on loans will mean that graduates actually repay back less each month and will have more net income available to them.

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If an individual inherited any money, it would not be expected that those assets be used to repay the student loan. Student loan repayments are income contingent and made through PAYE and those who take out student loans will begin to repay once their income is above the threshold, which will be £21,000 from 2016. Repayment will be deducted at 9% of any income above this earnings threshold. Linking repayments to a borrower's income ensures that repayments are based on the ability to repay, rather than the size of their total student loan debt.

The student loans we have crafted are extremely generous, in that they have an automatic 'insurance' mechanism that means that when income falls below the threshold, for instance for those with modest salaries or who choose unpaid work, which may include time spent bringing up a family, they will not be asked to make a contribution during that time, but interest will continue to accrue.

After 30 years, all graduates will have any outstanding balance written off. Under our new more progressive repayment system, around a quarter of graduates with the lowest lifetime earnings will pay less overall than people under the current system do now. Loans are also written off if a borrower dies, or receives a disability benefit and because of the disability is permanently unfit for work.

Finally, the Government is currently looking at a range of options for a potential sale of the of the student loan book and will make a decision on how and whether to proceed with a sale by Budget 2011.

Yours ever

David

THE RT HON DAVID WILLETTS MP

The Intergenerational Foundation www.if.org.uk charity no: 1142 230