Bob Roth June 30th, 2023

# Untangling affordability from profitability in the university funding crisis

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*University leaders claim to face a trilemma of access, quality and affordability when it comes to funding higher education but is it an explanation that adds up?*

LSE's outgoing president and vice-chancellor, Baroness Minouche Shafik, recently wrote a piece for the *Financial Times* in which she highlights the emerging crisis of university funding. These worries are widely shared – by other university managers, the Office for Students, and politicians. But Shafik's piece is particularly helpful to understand the perspective of university managers on the broader crisis of higher education in the UK (alongside the perspectives of staff and students).

At the centre of Shafik's argument is what she calls a trilemma faced by university managers across the developed world – a trilemma between access, quality, and affordability. The message: you may aim for all three, but reality will only allow you two. You can have high-quality education and relatively wide access for the population and, in so far as exorbitant tuition fees can be reconciled with access, the US system is given as an example. You can also have wide access and affordable education but not quality (continental Europe's universities are sub-par, apparently). Finally, quality and affordability may be combined, but will come with the cost of access (the model before mass education). But you cannot have all three.

Elaborating on the UK, Shafik tells us that, in terms of **quality,** UK universities are a mixed bag. The question of equating quality and ranking notwithstanding, the UK boasts a select number of world-leading institutions followed by a 'tail' of lagging institutions. **Access** is much less ambivalent, we are told, having rapidly increased due to the current student loan system (access across the board, that is – not equality of access). After all, everyone who gets in to a university is 'entitled' to state-administered, income-contingent student loans, on which more below.

With a decent score in the first two legs of the trilemma, Shafik argues that the real crisis of university funding in the UK is found in the third leg: **affordability**. With UK home fees capped at

£9,250 for more than five years now, in the current inflation-ridden times UK universities are losing out on *a lot* of money: £1750 per home student in the last academic year alone. Again, this argument is frequently made by university managers more widely, and is by no means unique to the position of Shafik or the LSE. But notice the slippage: this is no longer about the affordability of education for students (whether they can afford their fees), but about the sustainability of the university's own finances, the university's ability *to afford to educate*. The real value of their university's 'wage' (tuition fees) are now dropping with the same speed as the wages of their workers (not to mention the means of their students). And that hurts.

### An odd way out

The problem with this line of reasoning is that it leads to the impression that the trilemma would be no more if only the tuition cap would be unfrozen (ie rise) and lifelong loan entitlement expanded. It is a quite a take. As Professor Jonathan Michie put it in response to Shafik, 'taking on loans and getting into debt' is scarcely an incentive for learning, even if it is not a deterrent.

The worries of university managers are also difficult to understand considering the crisis of university income has been offset relatively easily through the much higher tuition fees collected from overseas students, at least for the country's elite institutions. Again, LSE is not the only one in this respect, nor the biggest (UCL takes the throne, earning half a billion pounds in fees from overseas students in the last academic year alone). In 2021/2022, 'educational exports', including in-person teaching of overseas students at UK universities, raised £25.6bn in revenue. That is plenty to offset the inflation-driven gap in the roughly £21bn the government currently pays to fund one cohort of English-domiciled full-time undergraduate students.

Shafik does acknowledge the rising income from overseas students in her op-ed. But in the same breath she adds that the export of education, though a success story, is not "a lasting solution". This is somewhat surprising. Overseas students certainly are a structural characteristic of Russell Group universities, and the market of overseas students is only growing. Unsurprisingly, UK universities increasingly favour lucrative overseas fees over the no longer profitable market for home students. This is also why the 'funding crunch' eats into the access leg of the trilemma (as far as home students are concerned). Overseas students, in turn, are reduced to cash cows, funding home students and research alike. In sum, the whole story reads like another symptom of the neoliberal marketisation of higher education.

Paradoxically, the solution preferred by university managers seems to be as follows: make it more expensive for home students to study by unfreezing the fee cap, *in order to* make the home students' market profitable again for universities, *in order to* maintain both access and affordability (for the university). Aside from the questionable logic, the necessary shadow side to this is student debt, which requires a closer look at the student loan system.

### Loan or subsidy?

I have already mentioned the £21bn in government expenditure on home students. This sum is made up of both advance payments on tuition fees made to universities under the student loan system, as well as direct payments to students through maintenance loans. While these loans are supposed to be repaid, under the current system the payments for tuition loans are a partial gift to universities. Given the obligation to repay ceases after 30 years, and the loan itself is income-contingent, the scheme operates as a kind of tax for most graduates. It is a fully fledged loan only

for high-earners. Indeed, the government itself forecasts that only 20% of full-time undergraduates starting their studies in 2021/2022 will pay back their loans in full, and that it will end up subsidising 44% of the loans issued in 2021/2022.

This qualifies the common perception that university income has moved away from state funding to tuition fees paid by students, as almost half of the tuition-based income is forecasted to become a state subsidy. The misperception comes from the otherwise correct observation that direct funding through research councils has been substituted by a tuition-based model. Indeed, funding council income made up £7.3bn of university income in 2010/2011 against £2.5bn in tuition fees, whereas this was only £3.8bn in 2021/2022 against £10.3bn in tuition fees. But, if a large share of these fees will ultimately be subsidised by the government, the state is still by far the largest single source of university income.

The current government wants this to change. It is eyeing a system in which most graduates will pay back their loans fully (see again, the IFS report). But there is a catch: the interest rate will go down as well. This means that even though more low-earning graduates will be repaying their loans as they start paying back sooner and over a longer amount of time, high-earners will end up repaying less: "student loans will become cheaper for high-earning graduates and more expensive for those with lower earnings", according to the IFS and this piece). The reforms to the student loan system are thus caught up in a kind of redistributive struggle. Moreover, in the long run, the gains from repayments from low earners are likely to be less than the costs incurred through lower repayments by high earners. In short, the new loan system is likely to cost the taxpayer more in the long run.

So, from the current system in which the state ends up subsidising a large share of tuition fees (especially of low-earning graduates) we move to a system in which lower earners are to repay their debts in full, and high earners pay less. In other words, while university managers seek the unfreezing of the tuition fee cap, leading to higher tuition fees for home students, the government is at the same time trying to make sure these fees are repaid in full, by everyone. Surely this would have a negative impact on *both* the affordability of *and* access to higher education, especially for lower earners. Moreover, as the latter are usually found in the arts and humanities, the idea that the 'lower returns'-subjects (usually non-STEM) are less valuable to society is reinforced (a questionable take).

### Deliberate design failure

It seems that we are moving on from the situation summarised by Louise Dalingwater in 2016:

> *"State intervention is still necessary to ensure the provision of education for all, but marketisation and commodifying higher education also risks excluding underprivileged students from attending the most prestigious institutions."*

With the state retreating, and university managers eyeing Shafik's notion of affordability in both the home and overseas student markets, the likely cost is access. But I am still wondering about what exactly 'affordability' is doing in the discourse of university financing. To me it seems that university managers are trying to have the best of both worlds: to bank on the commodification of education by cashing exorbitant fees from overseas students, as well as making the domestic student market profitable again. In any case, university managers do not seem to be concerned about the affordability of higher education for students, but rather only about its financial viability as a service. Profitability, then, not affordability (or access). University managers could, of course, bite the bullet: it is their job to maintain the profitability of higher education (or else be forced to implement cuts like the recent ones proposed at the University of East Anglia). But combined with the government's retreat, this preoccupation with profitability is detrimental.

To conclude, these observations raise some fundamental questions: do we really want to discuss the future of higher education in terms of affordability *qua* profitability, student markets, the university as a service provider, or as big business? It has of course become all of these things. The discussion on the role of the state in university finance also shows us, once again, that markets are constructs. The market for higher education is no exception. But this also means that the current crisis of higher education, of which Shafik's trilemma is just another manifestation, is not the result of some force of nature but a failure of a deliberate design.

*Note: A version of this post first appeared on 1 June 2023 on the Contemporary Issues in Teaching and Learning Blog, part of the PGCertHE programme at the LSE.*

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