CHAPTER 6

Undergraduate Student Funding in England: The Challenges Ahead for Equity

Claire Callender

INTRODUCTION

Since 1990, a series of policies in England have changed how higher education and undergraduate students are funded. These reforms have culminated in a funding system predicated on student loan debt. They have been informed by neo-liberal thinking, especially, ideas underpinning the marketization of higher education. Sustaining these student funding policies and the accompanying policy rhetoric, are a range of unsubstantiated and misplaced assumptions about the impact of the reforms, the benefits of student loans, and their effect on student behaviour.

The new student funding system was designed to improve access to higher education and to promote the wider economic and social benefits associated with higher education. But sometimes the system has the opposite effect especially for the most disadvantaged students. These students' opportunities have been curtailed, highlighting how the funding

C. Callender (✉)

Department of Higher Education Studies, UCL Institute of Education,
London, UK

Birkbeck, University of London, London, UK

e-mail: c.callender@bbk.ac.uk

© The Author(s) 2022

O. Tavares et al. (eds.), *Equity Policies in Global Higher Education*,
Issues in Higher Education,

https://doi.org/10.1007/978-3-030-69691-7_6

system, particularly student loans, can perpetuate existing inequalities rather than ameliorate them.

This chapter focuses on English domiciled undergraduate students studying at a UK higher education institution.¹ The chapter starts with a brief overview of the ideas informing student funding policies globally. Next it explores the changing nature of student funding in England focusing on policies introduced since 2012. It examines the policy rhetoric contained in key government documents, to provide a context for the current provision of student aid, and to highlight a series of predictions and assumptions about the benefits of these policy changes. This section focuses particularly on assumptions about student loans as a policy device for shaping or affecting student and graduate behaviour. Then the chapter explores the veracity of these assumptions calling upon findings from a range of empirical studies.

STUDENT FUNDING POLICIES

Money matters for higher education access (Heller, 1997; Leslie & Brinkman, 1987). Tuition fee increases tend to depress higher education participation, particularly when not underpinned by enhanced student financial support (Dearden et al., 2014). However, the type and mix of that aid is important, especially for disadvantaged groups who are more price sensitive. With the expansion and increasing social demand for higher education, coupled with rising higher education costs, governments have changed the way they subsidise higher education, often shifting more costs onto students and their families (Johnstone & Marcucci, 2010). With that shift is the increasing use of student loans, rather than grant aid, to address resulting financial constraints which may prevent students from investing in higher education.

Economists argue that in the interest of equity, those who benefit from higher education should contribute towards its costs. They claim that it would be regressive if these costs were shouldered exclusively or primarily by the taxpayer because most taxpayers are not graduates and are financially disadvantaged over their lifetimes compared to graduates. In essence,

¹ Higher education policy within the UK is devolved and funding policies have diverged. The reforms discussed relate only to English domiciled students studying at public universities in the UK. Discussion about loans refers exclusively to government-funded loans, which are administered and distributed by the government-owned Student Loans Company.

public subsidies would be used to redistribute wealth from people who are less well-off to those who are better-off. It is these high private rates of return that graduates reap from their higher education that are invoked to justify their private contribution to higher education and which are deemed to render loans fair and affordable.

Loans, in a cost-sharing environment such as England, generate more income for the university sector by facilitating tuition fee increases and by making such increases more politically and socially acceptable (Ziderman, 2013). Proponents of loans argue that they promote higher education access and greater equality. Loans help ensure that liquidity constraints are not a barrier to access.

The disincentive effects [on participation] of up-front tuition fee increases may be offset also by the availability of loans for students that will cover these augmented costs. Loans enable student borrowers to avoid up-front payments for higher education (whether for tuition fees or living expenses) by delaying payment, which will be rendered in manageable instalments out of enhanced earnings after graduation. (Ziderman, 2013, p. 34)

From a government perspective, loans are preferable to grants. They are usually cheaper with some, or all, of the money borrowed being repaid. Together with tuition fee increases, repaid via loans, governments can expand the number of university places because the costs per place are less. In turn, such expansion can help to widen higher education participation.

Others argue that far from promoting higher education participation, widening access, and greater equality, loans have the opposite effect. Opponents of loans stress the considerable public benefits (economic, cultural, intellectual and social) and positive externalities to higher education, in addition to the private returns, which justify high public subsidies. They argue that these public benefits require financial support, for instance, to sustain the highly educated workforce needed for growth and prosperity in globalised knowledge economies. In other words, higher education is more of a public than a private good. Consequently, it should be funded by the state. Others suggest that the higher taxes graduates pay represent a user contribution which is part of a collective public investment and so tuition fees and loans are unnecessary.

A key argument against loans is their potential deterrent effect on higher education participation, especially among disadvantaged groups.

Low-income prospective higher education students are more risk averse than their wealthier peers and are more concerned about building up student loan debt. Opponents of loans also suggest that loans are less effective than grants in encouraging access to higher education among low-income students. They also highlight how loans may be less efficient than anticipated because of the type of loan and the costs of administering, financing, and servicing loans. As Zideman (2013, p. 43) argues

Since a grant offers a stronger and more direct incentive for access than does a (partially) repayable loan, the apparent advantage of loans over grants is less clear-cut. This highlights a central conundrum in loan policy: at what level of built-in loan subsidy does a grant become a more cost-effective instrument for helping the poor than a subsidized loan (with hidden grants)?

How have these arguments for and against loans played out in practice? To assess the extent to which loans have ameliorated or exacerbated inequalities, we turn to England as a case study.

CHANGING STUDENT FUNDING IN ENGLAND: TUITION FEES AND STUDENT LOANS

This section discusses how these ideas about student funding have been implemented in England by charting the key student financial aid reforms. Prior to 1998, public universities were fully funded by the state and English domiciled full-time undergraduates paid no tuition fees. Low-income students were eligible for maintenance grants provided by the state towards their living costs. In 1990 government-funded mortgage-style maintenance loans were launched for all undergraduates.

Since the 1990s, a series of cost-sharing policies were introduced to address both the escalating costs of higher education associated with expansion and years of government underinvestment in the sector. These reforms sought to cut public expenditure on higher education and to reduce the sector's reliance on public funding while simultaneously boosting and widening higher education participation. It did this through substituting public contributions to higher education with far higher private contributions, primarily through the introduction of tuition fees repaid by government-funded student loans.

Tuition fees, first introduced in 1998 for full-time undergraduate courses, were initially set by the government at £1000 per annum and

were means-tested. Non-means tested tuition fees in England then rose to a maximum of £3000 in 2006/07, to £9000 in 2012/13, and to £9250 in 2017/18 for all full-time undergraduate courses. Maximum tuition fees of £6750 for part-time undergraduate courses were first introduced in England in 2012/13, rising to £6935 in 2017/18.

It was hoped higher education institutions would compete on price by charging different tuition fees for their courses and by offering discounts through institutional aid. Such price competition never appeared. Both the £3000 and the £9000 tuition fee became *de facto* flat rates, as eventually all universities charged the maximum permitted for all their courses. Any competitive advantage of charging lower tuition fees was outweighed by the greater income derived from higher fees and by concerns over the reputational signals lower fees may send to potential students—making England’s full-time tuition fees some of the highest among OECD countries (OECD, 2019a).

By 2012, tuition fee income had replaced most of the money universities had received directly from the state for teaching undergraduate courses. As some argued (Shattock, 2017), in essence, higher education had become privatised. This was a decisive break with the welfare state and the post-war consensus regarding the state’s obligation to fund higher education (Callender, 2014).

These tuition fees are repaid by full and part-time students via government-subsidised income-contingent loans which cover the full cost of their tuition fees. Most full-time undergraduate students are eligible for these loans—they are a universal entitlement rather than being discretionary. In addition, students qualify for loans towards their living costs with the maximum amount a student can borrow depending on their household income, where in the country they study, and where they live during term-time. By 2016/17, these maintenance loans had completely replaced the means-tested grants poorer full-time students had once received towards the living costs. The effects of this policy change on student behaviour are unknown and have not been explored. It is possible that this reform may encourage a larger number of poorer students to live at home with their parents while studying so that they can contain their student loan debt accumulation by reducing the amount of maintenance loan they take out.² Evidence (de Gayardon et al., 2019) suggests that students living in their parental home are less likely to take out maintenance loans

² However, the proportion of students living at home remains largely unchanged.

compared with those living away from home. Consequently, by 2020 the only form of government-funded financial support available to both full and part-time undergraduate students³ was loans. If students want to attend higher education, most have no choice but to borrow.

Student loan repayments in England are income contingent, unlike most student loans elsewhere which are ‘mortgage style’ and not based on students’ ability to repay (see chapter by Dill in this volume for a discussion of ‘mortgage style’ loans in the US). Students start repaying their loans once they graduate and only when earning above an income threshold. For students who started after the 2012 reforms, the repayment threshold (at the time of writing) was £27,295 in April 2021 but it rises every year in line with inflation. Graduates then pay 9% of their salary above this threshold until they have paid off their loans with any outstanding debt written off after 30 years. Interest on the loans also varies by graduates’ earnings.⁴ Loan repayments are deducted directly from graduates’ pay packets—via the tax system. The repayments, therefore, depend on graduates’ earnings—the less they earn, the less they repay, protecting low-earning or unemployed graduates from high repayments, financial hardship, and rendering repayments more affordable and progressive.

Hence, there are numerous strengths to income-contingent loans, especially when compared with ‘mortgage’ style loans where repayments are not linked to a graduate’s capacity to repay. Under mortgage style loans, repayments are calculated for a specified repayment period based on the total amount borrowed plus the interest accrued. The consequences of non-payment, for instance in the United States (US), can be severe including default, forbearance, and loss of credit approval (Barr et al., 2019). By contrast, under income-contingent loans, students cannot default on their repayments. If graduates, for instance, experience low earnings or unemployment, their repayments are adjusted accordingly or cease. Nor does the amount of their monthly loan repayments depend on the total amount borrowed. The total amount increases the time it takes to pay off the loan, not the monthly loan repayments, unlike mortgage style loans.

³ Students studying nursing and subjects allied to medicine can get some grant aid.

⁴ The repayment threshold and period of debt forgiveness have changed over time—see (Belfield et al., 2017b). In Autumn 2021 there were rumours that the student loan system would be changed yet again.

POLICY RHETORIC

This section explores government thinking and the policy rhetoric contained in the government policy documents informing the 2012 reforms, which set out what they hoped to achieve. The rise in tuition fees initially to £9000 repaid via loans represents a radical change and a highpoint in policies promoting student choice and provider competition—hallmarks of the marketization of higher education. Consequently, student funding policies play a pivotal role in meeting the government’s policy objectives and in turning students into investors in higher education.

The government documents also give insights into the predicted effects of the reforms and the role and benefits of income-contingent student loans. The title of 2011 government White Paper—*Student at the Heart of the System* (Department for Business, Innovation and Skills, 2011, para 23) embodies the central policy objective. It argued

Our reforms are designed to deliver a more responsive higher education sector in which funding follows the decisions of learners and successful institutions are freed to thrive; in which there is a new focus on the student experience and the quality of teaching and in which [there is] ... a diverse range of higher education provision. The overall goal is higher education that is more responsive to student choice, that provides a better student experience and that helps improve social mobility.

The reforms aimed to make higher education more financially sustainable by reducing its reliance on direct government funding and replacing this lost income with higher tuition fees repaid via loans. Government block grants to universities to pay for their teaching were portrayed as stifling growth and competition, and limiting student choice, so funding must follow the student. Student loans were to act like educational vouchers that students could redeem at the institution of their choice. As the White Paper claimed, ‘putting financial power into the hands of learners makes student choice meaningful’ (Department for Business, Innovation and Skills, 2011, p. 5). More specifically, it proposed ‘we want to ensure that the new student finance regime supports student choice, and that in turn student choice drives competition, including on price’ (Department for Business, Innovation and Skills, 2011, p. 19). Thus, the reforms sought to change the position and behaviour of students within the higher education system. Higher education institutions, as service providers and

delivery organisations, react to student demand while students are investors in higher education and institutions—and become human capital. Student choice is always portrayed as something positive within the policy rhetoric.

Moreover, by making higher education more financially self-sufficient, it could expand, and the number of places increased. Indeed, the government-set cap on the number of students each higher education institution could recruit was gradually lifted by the White Paper and then abolished completely in 2015/16.⁵ In turn, this expansion, it was argued, would help widening participation: ‘Ultimately, the best way to widen participation is to ensure there are sufficient higher education places available for those qualified’ (Department for Business, Innovation and Skills, 2011, p. 7).

The specific benefits of income-contingent loans, according to the White Paper, were as follows:

graduates do, on average, earn more than non-graduates... So it is fairer to finance the system by expecting graduates to pay, if and when they are in better paid jobs. The proposed repayment system works on a “pay as you earn” basis. Therefore, no first-time undergraduate student will be asked to make a contribution to tuition costs up-front. Instead, graduates will make a contribution based on their actual earnings once they have left their course. Under the new system, borrowers will only begin to repay once their income is above the £21,000 repayment threshold. Repayment will be deducted at nine per cent of any income above this threshold. Linking repayments to a borrower’s income ensures that repayments are based on the ability to repay, rather than the size of their debt. (Department for Business, Innovation and Skills, 2011, p. 17)

Loans are presented as an instrument to achieve fairness. They are fair because those who benefit from higher education contribute towards its costs, when they can afford to do so. The emphasis is on the private economic benefits of higher education and on graduates’ higher earnings.

The quote above contains the sole reference in the 2011 White Paper to student loan debt. It suggests that the amount of debt students accrue is immaterial, and by association, so are concerns about debt

⁵In June 2020 the government reintroduced the cap on student numbers for academic year 2020–21 because of issues facing the higher education sector arising from Covid-19. However, in August 2020 the cap was lifted, and recruitment has been high despite Covid-19.

accumulation. Issues about debt aversion are ignored. In another government document upon which the White paper is based—the 2010 Browne Report (Independent Review of Higher Education Funding and Student Finance, 2010), debt aversion is discussed but similarly dismissed. The Report argues that if students understood how income-contingent loans worked and the loans' inbuilt insurance features, students would not be debt averse, suggesting that debt aversion is irrational.

because the current system is poorly understood—many other students and their families are worried by the fact that they run up debt by going into higher education. In these discussions of debt, student loan obligations are still grouped alongside credit card debts and commercial mortgage style loans, as if they are all the same. (Independent Review of Higher Education Funding and Student Finance, 2010, p. 40)

POLICY PREDICTIONS AND ASSUMPTIONS

Underpinning the policy changes and policy rhetoric examined above, are a range of predictions and assumptions about the impact of the reforms, and the benefits of income-contingent loans for both the higher education sector and students. First, there is the prediction that higher education would expand, participation widen, and social mobility improve. Next is an implicit assumption that all students are eligible for loans, and eligible students will take out the loans. Third, loans are considered fair and repayments affordable because they are linked to earnings and protect graduates from excessive repayments and hence, financial hardship. Fourth, loans are portrayed as risk free because repayments are linked to ability to repay and it is the government, rather than students or their higher education institution that bear the financial risk of low graduate wages and non-payment. Fifth, the total amount of student loan debt a student accumulates is deemed immaterial because repayments are not linked to total borrowing but to earnings. Implicit, in this idea is another assumption—that debt aversion is irrational. For all these reasons, it is supposed that student loans will have no negative effect on prospective students' higher education decisions such as whether to enter higher education and what and where to study. Rather loans will provide students with greater choices. Nor, it is predicted, will loan repayments have adverse effects on students' post-graduation life choices and behaviour such as labour market outcomes, housing, family formation, mental health, savings, and financial security.

And consequently, loans will leave untouched the economic and social benefits associated with higher education.

The impact of student funding reforms in England since 2012—assessing the predictions and assumptions.

In this section we examine how well the policy predictions and assumptions underpinning the most recent student funding reforms have been realised, especially since 2010/11, the last year unaffected by the 2012 reforms.

Expanding and Widening Participation

In 2017/18, an estimated 46.4% of young people living in England would enter full-time higher education for the first time by the age of 30, up from 40.4% in 2010/11, and 35.6% in 2006/07. The equivalent figures for part-time entrants were 3.8% in 2017/18, 5.6% in 2010/11, and 6.1% in 2006/07. Apart from a fluctuation in 2011/12 and 2012/13, coinciding with the introduction of higher tuition fees, there has been a steady rise in the participation rates of full-time students since 2006/07, but a continuous fall for part-time entrants (Department for Education, 2019a). Indeed, other research confirms that the 2012 reforms had little impact on the overall enrolment rate of school leavers, who study full-time, but had a slight negative impact on the enrolment of those from the highest socioeconomic groups (Azmat & Simion, 2017).

The changes in higher education participation rates are borne out by trends in the absolute number of students. The total number of first year UK and EU undergraduates in the UK fell by 17% between 2010/11 and 2018/19, contrary to the 2012 reforms' predictions (Fig. 6.1). The decline was driven largely by drops among part-time entrants. Part-time numbers since 2008/9 have declined year on year. They fell dramatically as a result of the 2012/13 student funding reforms. In 2010/11, there were 301,025 first year part-time undergraduates. By 2018/9, the number had plummeted to 128,535—a fall of 57%. By contrast, full-time numbers have risen continuously since 2005/06, except for temporary dips associated with tuition fee increases, after which numbers subsequently recovered and rose year on year. Between 2010/11 and 2018/19, the number of full-time entrants grew by 7% despite the demographic downturn in the number of 18-year olds over this period. The rise in full-time numbers and fall in part-time numbers meant that, by 2018/19, only 19% of all undergraduates studied part-time compared to 44% in 2006/07.

Fig. 6.1 First year undergraduate students by mode of study, 2005/06 to 2018/19, UK

These figures clearly show that higher education has not expanded in line with the policy makers' predictions. Access to higher education has been curtailed while student choice constrained, especially access to part-time study.

Another assumption underpinning the 2012 student funding changes was that higher education participation would widen, creating more opportunities for groups currently under-represented. Yet there is limited evidence that this has happened or that there has been a boost to social mobility in terms of the proportion of those from disadvantaged backgrounds entering higher education relative to those from more advantaged groups.

Globally, there are considerable socioeconomic differences in participation rates. In England, the absolute rate at which those from socioeconomically disadvantaged backgrounds participate in higher education has increased over time. The percentage of 15-year-old school pupils from the poorest households living in England who entered higher education by age 19⁶ rose from 19.8% for the 2010/11 cohort to 26.3% for the

⁶There are numerous debates on what are the best data for measuring disadvantage. Here we opt for an individual, rather than area, level measure based on the percentage of pupils

2017/18 cohort. Over the same period, the rate for their wealthier peers rose from 38.3% to 44.9%. And because participation rates have increased for both social groups, the socioeconomic gap in progression rates has not reduced overtime. By 2017/18, the gap had increased to 18.6 percentage points, the largest gap since 2006/07 (Department for Education, 2019b). Thus, despite the expansion of higher education in England and the growth in higher education participation, inequalities in access by family income have grown over time. As Boliver (2011) has observed, ‘widening participation’ students continue to form a small proportion of all undergraduates and little progress has been made in increasing their share. These findings support the arguments in the opening chapter of this book presented by Amaral. These developments in England point to the idea of Maximally Maintained Inequality (MMI). Higher education expansion has not reduced inequalities in access because students from higher socioeconomic backgrounds have exploited the opportunities provided by higher education expansion, and are the best equipped to do so.

Moreover, there is evidence to suggest the operation of EMI—Effectively Maintained Inequality whereby those students from higher socioeconomic backgrounds have gained access to qualitatively better higher education. Inequalities by household income are evident in terms of the type of higher education institutions students attend. Students from the poorest households are far less likely, compared to their wealthy peers, to enter the most selective and prestigious universities with all the advantages that such universities confer on their students and graduates. Only 3.4% of students from the poorest families had entered these highly selective universities by age 19 by 2017/18, up from 2.5% in 2010/11. By contrast, over the same period, the progression rate for wealthier students rose faster from 9.5% in 2010/11 to 11.2% by 2017/18. Thus the gap in the progression rates between students from the poorest and richest families was 7.8 percentage points by 2017/18, compared with 7.0 percentage points in 2010/11 (Department for Education, 2019b). Consequently, the poorest students have made no progress in gaining access to the most prestigious high-status universities in the past decade despite the promises of the 2012 funding reforms.

Higher education participation rates in 2017/18 by age 19 also were lower for men than women (37.2% compared with 47.4%) with the gender

who were in receipt of Free School Meals at the aged of 15. Free school meals are only available to pupils from low-income families.

gap in university entrance widening over time. In 2017/18, rates were lowest among white students compared with minority ethnic groups, ranging from 38.2% for Whites to 59.9% for Blacks and 63.5% for Asians overall, rising to 77.6% for Chinese students with the largest proportional gains since 2010/11 being made by Black students. When gender, ethnicity and family income are combined, progression rates to higher education in 2017/18 fall to 14% for white men from the poorest families and to just 2% for entry into the most selective universities compared to 10% and 1% respectively in 2010/11 (Department for Education, 2019b).

Another significant difference in participation rates relates to the type of high school students attended at age 17, when applying to enter higher education. By 2017/18, 65.9% of those who studied at public high schools progressed to higher education by age 19 compared with 84.6% from private high schools—bastions of privilege in England (Green & Kynaston, 2019). The gap between those from public and private schools entering higher education has grown since the 2012 student funding reforms, rising from 12.3 percentage points in 2010/11 to 18.6 percentage points in 2017/18. Differences in progression rates to the most selective universities are even starker. For public school pupils it was 18.1% by 2017/18 compared to 56.9% for privately educated pupils—a gap of 38.8 percentage points compared to a gap of 37.6 percentage points in 2010/11. So, privileged students with wealthy parents who can afford to buy their children's education are further privileged by attending the 'best' universities.

Student Loan Eligibility and Take-up

The different patterns of higher education participation rates among full and part-time students following the 2012 reforms can largely be explained by the rise in tuition fees, and the availability and take-up of tuition fee loans. The loans were designed to protect students from these tuition fee rises, to make study more affordable, and to safeguard access. However, unlike full-time students, far fewer part-time students are eligible for tuition fee loans than the government anticipated because of the loans' restrictive eligibility criteria. To qualify for loans students must fulfil three main criteria. First, they have to take a qualification that is not at an equivalent or lower level than a qualification (ELQ) they already hold. For instance, if they already have a Bachelor's degree, they cannot get a loan to pay for a second Bachelor's degree. Second, to qualify for a loan

students' have to study at an intensity of greater than 25% of a full-time equivalent course, so they cannot get loans for short courses. Finally, students have to study a full course for a specified qualification—so students studying individual modules are ineligible for loans. These eligibility criteria apply to both full and part-time students but are more likely to affect part-time students who are older, employed, and have existing work and family responsibilities. By 2015, only 47% of all English domiciled part-time entrants to UK universities and Further Education colleges were eligible for a loan (Callender & Thompson, 2018).

Consequently, around a half of part-time entrants do not qualify for loans because of the narrow eligibility criteria—criteria which were designed primarily to suit young school leavers. These ineligible students have to pay their higher tuition fees up-front out of their pocket, or abandon the idea of studying. This makes a mockery of the Browne Report's claim that: 'Higher education will be free at the point of entry for all students, regardless of the mode of study, giving them more choice about how they choose to study—and where' (Independent Review of Higher Education Funding and Student Finance, 2010, p. 36). And, as research in the UK and elsewhere repeatedly shows, up-front tuition fees and fee increases have an adverse impact on participation unless they are accompanied by equivalent increases in student financial support (Dearden et al., 2014).

But even when part-time students are eligible for loans, many do not take them out, unlike their full-time peers. Of those qualifying for tuition fee loans, only 59% of part-timers took them out in 2012 (Callender & Thompson, 2018) compared with over 89% of full-timers (Bolton, 2019). A contributing factor is that the loan-repayment terms are more onerous for part-timers. Part-time students must begin to repay their loans, at the latest, in the April four years after they start their course, even if they are still studying and before they reap any financial benefits of study.⁷ By contrast, full-time students do not have to begin to repay their loans until the April after they leave their course. As a result, many part-time students are reluctant—even if eligible—to take out loans.⁸

⁷The average duration of part-time Bachelor degree courses are 5–6 years.

⁸In 2018, for the first time, maintenance loans were introduced for part-time students, but no data are available on the take-up on these loans.

*Loans Are Fair, and Loan Repayments Are Affordable
and Risk Free*

Part-time students' unwillingness to take out the loans they are eligible for is indicative that they do not necessarily see loans as fair, affordable or risk free. These students are far more price sensitive and debt averse than their younger full-time peers, probably because they are older, have families, and already have financial commitments such as mortgages. Moreover, because most part-timers are already in full-time paid employment, unlike their younger full-time colleagues who are new labour market entrants, they are far less likely to benefit financially from their degree. Part-time graduates' salaries grow at a slower pace and are more likely to stagnate compared with their full-time peers (Callender & Thompson, 2018). Hence, part-time students do not necessarily reap the financial benefits of higher education, upon which student loans are predicated. They may not get salaries increases to cover the additional costs of loan repayments. Consequently, there are very real potential financial 'risks' associated with loans for part-time study. Taking out a student loan and having to pay an additional 9% in marginal tax in loan repayments, is a leap of faith when the returns on their investment are variable and uncertain.

Similarly, there is mounting evidence that loans are not necessarily perceived as affordable or risk free by younger students from disadvantaged backgrounds. Research strongly suggests that such students are concerned about their ability to repay their loans, even when the loans are income contingent (Callender & Mason, 2017). And these students have good reasons to be apprehensive. The unequal socioeconomic patterns in higher education entrance, discussed above, are mirrored once students start their studies, and once they graduate.

University drop-out rates in England are low compared to the US and many other European countries (OECD, 2019b). In 2016/17, around 6.3% of students under the age of 21 taking a first degree did not continue in higher education beyond their first year, compared with 7.6% in 1997/98 (HESA, 2019, Table D). However, students from lower socioeconomic backgrounds are far more likely than their more advantaged peers to drop-out of their studies, not complete their degree within five years, and be awarded a lower class of degree. These differences are present even amongst students with the same prior attainment in school, attending the same universities, and studying the same subjects (Crawford et al., 2016). Thus, these disadvantaged students could end up with high

levels of debt but no qualification, or a poor qualification, and yet still be burdened with loan repayments.

And once students complete their studies, there are significant differences by socioeconomic background in success after leaving university, measured in terms of labour market outcomes such as earnings. These differences are present even amongst students with the same prior attainment in school, attending the same universities, studying the same subjects and graduating with the same degree classes (Crawford et al., 2016). For instance, a recent study on graduate earnings concluded ‘When we take account of different student characteristics, degree subject and institution attended, the [earnings] gap between graduates from higher and lower income households is still a (sic) sizeable, at around 10% at the median’ (Britton et al., 2016, p. 55). However, while young people from poorer backgrounds seem to benefit less from a given university experience than their richer peers, they still reap substantial rewards from going to university compared with those who do not go. Even so, the stronger likelihood of non-completion and lower earnings on graduation makes higher education a risky investment with unknown financial returns.

Rising Student Loan Debt Deemed Immaterial

A key consequence of the student funding reforms has been mounting student loan debt on graduation. Since the increase of tuition fees to £9000 in 2012 and then to £9250 in 2017, repaid via loans, along with the replacement of means-tested maintenance grants with larger maintenance loans in 2016, average student loan debt on graduation (maintenance and tuition fee loans) has risen to an estimated £47,000, up from £24,754 under the pre-2012 funding system (Belfield et al., 2017a). However, since the abolition of grants for low-income students, student loan debt has become unequally distributed. Students from the poorest 40% of families will graduate with debts of around £56,000, compared with £42,000 for students from the richest 30% of families. And most students will never pay off their debt in full because their lifetime earnings will not be high enough. An estimated 83% graduates will not repay their loan in full within 30 years, the point at which outstanding debt is forgiven (Belfield et al., 2017b). Consequently, the majority of graduates will be repaying their loans for most of their working lives—a daunting prospect for some.

*Debt Aversion Is Irrational and Student Loans Enhance
Student Choice*

These levels of debt on graduation amount to nearly double annual median earnings—far more than the poorest students’ parents are likely to earn in a year (Office for National Statistics, 2020). Yet, policy makers argue that the total level of debt is deemed irrelevant by income-contingent loan repayments, which are based on ability to repay rather than the total amount borrowed. And by implication, they suggest that debt aversion is irrational. For example, Barr (2010) argues that income-contingent loans are like a payroll deduction, not credit card debt. ‘Parents do not lie awake worrying about their child’s future tax bill; no more should they worry about loan repayments’ (Barr, 2010, p. 2).

Student loan repayments reduce graduates’ disposable income, potentially creating a financial burden. The loans and the repayments may also have a psychic cost and trigger a psychological burden (Keese, 2012). Research on higher education students’ attitudes towards debt, in the context of income-contingent loans, confirms the many dimensions to their complex attitudes towards debt, including positive attitudes linked to the educational and lifestyle benefits that loans can provide (Harrison et al., 2015) and negative attitudes such as fear of debt.

Negative attitudes towards debt, high debt levels, concerns about repaying the loans, alongside the risks associated with higher education, mean that some prospective students, especially the most disadvantaged, are deterred from entering higher education. For instance, Callender and Mason (2017) found debt aversion affects higher education applications from young working-class students. Analysing a nationally representative survey of students in England who were studying towards higher education entry qualifications, they found that debt aversion among prospective students from working-class backgrounds had grown over time. Such students were significantly more likely to hold negative attitudes towards taking on debt compared to students from upper class backgrounds. Moreover, negative attitudes were significantly predictive of lower intentions to enrol in higher education, even when controlling for gender, race, age, prior academic attainment, and type of secondary school attended (Callender & Mason, 2017).

Clearly, for some working-class students, and many part-time students too, loans are not perceived as risk-free. The total amount of debt accumulated on graduation matters, even where students understand how

income-contingent loans work. Being debt averse is not necessarily an irrational reaction. Students may weigh up the costs and benefits of higher education, but these costs and benefits and their choices are shaped by numerous factors—including, aspirations, socio-psychological identities, and emotional responses which can vary considerably by their social background and their access to human, social and cultural capital (Perna, 2006; Reay et al., 2005).

Student choices are not necessarily enhanced by student loans and ‘putting financial power into the hands of learners’ which apparently ‘makes student choice meaningful’ (Department for Business, Innovation and Skills, 2011, p. 5). Rather student loans can curtail student choices. There is mounting evidence that those who have overcome their initial fear of debt and do apply to higher education adopt a range of strategies to reduce their costs and borrowing. For instance, they may select their higher education institution or their course so that they can economise on their living costs, reduce or minimise their levels of student loan debt, or avoid taking out loans (Clark et al., 2015).

Students’ average living costs while at university amount to over £10,000 a year (Maher et al., 2018), more than average tuition fees. Yet maintenance loans rarely cover these costs in full. However, students do have some discretion over their living costs, unlike their tuition fees. A common strategy employed by students to reduce these costs is living with their parents while studying. This matters in a country like England where around 80% of all undergraduates leave the parental home to go to university.

Ongoing research, based on the same representative survey of prospective students used by Callender and Mason (2017), found that the odds of lower-class students deciding to live at home were 62% higher than for upper class students, after controlling for a variety of other socioeconomic factors. Just as revealing was the finding that the more debt averse the prospective student, the greater the likelihood that they would live at home while studying. A one unit increase in the fear of debt scale was associated with a 47% increase in the odds of living at home while studying, after holding constant other variables in the model.

Other research supports these findings. For instance, a study on loan take-up among current students, confirms the relationship between debt aversion and living at home with parents while studying (de Gayardon et al., 2019). Predictably loan take-up was associated with students’ parental income and other indicators of wealth. However, attitudes towards

debt also played a role. The more debt averse the student, the less likely they were to take out a tuition fee or a maintenance loan. Living at home while studying was a significant debt avoidance strategy. It was more strongly linked with the lower maintenance loan take-up than with lower tuition fee take-up (27% compared with 15%).

Thus, living costs while studying can directly affect students' institutional choice, encouraging lower-income students, first-generation university students, ethnic minority and mature students to consider only, or mainly, local higher education institutions—limiting their options of where and what to study. However, student loan debt and debt aversion adversely affect the choices and the mobility of those student groups who are already disadvantaged, thus exacerbating existing inequalities. This leads to greater social inequality and helps legitimate that inequality.

Loans Have no Adverse Effects on Students' Post-Graduation Life Choices and Behaviour and Leave Untouched the Economic and Social Benefits of Higher Education

There is a growing body of research indicating that student loan debt has a negative impact on various aspects of graduates' behaviour and life choices (for a review see—de Gayardon et al., 2018). This research suggests that there is no consensus about the impact of loan debt on decisions to participate in post-graduate studies, and on graduates' occupational choice and earnings. There is more agreement about the negative relationship between student loan debt and homeownership; marriage and family formation, especially for women; health; and financial wellbeing including savings for retirement. However, most of this research has been conducted in the US. The findings from this US research may not be applicable to graduates in England, who unlike most of their peers in the US, have income-contingent loans.

There is little research in England exploring the relationship between student loans and their outcomes for graduates. The student funding changes introduced since 2012 remain a large social experiment with unknown consequences. New research examines the relationship between student loans—including having borrowed for higher education and attitudes towards debt—and housing tenure at age 25 (de Gayardon et al., 2021). The study finds that graduates who took out a student loan to pay for their higher education are less likely to own their home and are more likely to live with their parents after graduation than both young people

who never went to university and graduates who attended university but did not take out a loan. These results suggest that higher education funding policies and student loan debt play important roles in structuring young people's housing in England.

CONCLUSIONS

Student loans were devised to protect students from tuition fee increases, make higher education study more affordable, encourage higher education participation, and safeguard and widen access. Income-contingent loans in England, by linking loan repayments to graduates' ability to pay, were designed to further these aims. They seek to make borrowing for higher education more attractive by protecting students from large unaffordable loan repayments. These loans, by intent, also have enabled higher education institutions, with the government's full support, to raise their tuition fees. This has helped generate more income for the higher education sector, make it more financially sustainable, and fund expansion. However, tuition fees in England have increased to such high levels that, at the time of writing, they are some of the highest in world. So too is the resulting average amount of student loan debt on graduation. Consequently, the majority of graduates will be repaying their loans for a large part of their working lives. But most will not have paid off their loans completely after 30 years—making loans more costly to government.

Underpinning the 2012 student funding reforms, which promoted these developments, was the desire to create greater student choice and provider competition and to change the behaviour of both higher education institutions and students. This was reflected in a range of predictions and assumptions about the reforms' impact on the higher education sector, and on students. These have only partially been realised by the funding changes.

As anticipated by the reforms, higher education participation has continued to rise for young full-time undergraduates. But participation has fallen among older part-time students, depressing overall levels of participation since 2010. The absolute number of those from the most disadvantaged backgrounds entering higher education has increased, but so has the number of those from more advantaged backgrounds. Consequently, there has been no reduction in the socioeconomic gap in progression rates; in fact, these have grown overtime. Both the absolute and relative

change in access to elite higher education has been left untouched by the 2012 reforms. Neither fairness nor inclusion has been achieved.

Higher education in England remains highly stratified, despite the expansion of full-time undergraduate higher education and a student funding system aimed at widening participation and promoting student mobility. The most prestigious universities and courses in England and in the world, remain dominated by students from the most privileged family backgrounds (Marginson, 2016b). As Marginson (2016a, 421) observes, prior social inequalities determine whether those from low-income families can improve their social circumstances while ‘higher education provides a stratified structure of opportunity’ with students from affluent families dominating ‘high value positions within higher education.’ Full-time higher education expansion and the accompany student funding reforms have not reduced class inequalities in access to elite higher education (Boliver, 2013) and in fact, may exacerbate these inequalities (Marginson, 2016a, 2016b). Indeed, the continued over-representation of socioeconomic elites in the most prestigious universities is central to the way in which inequality is ‘effectively maintained’ (Boliver, 2016).

Student loans have not been embraced equally by all students, as anticipated by the 2012 reforms. There are both financial and psychic costs to borrowing, but only the former are recognised in policy formation and implementation. Loans are not necessarily perceived by students as fair, affordable or risk free. Some students are deterred from participating in higher education because of fear of debt, concerns about loan repayments, and the amount they need to borrow. Uncertainties about the outcomes of higher education including its assumed private financial returns, upon which the loans are predicated, add to some students’ unwillingness or reticence to borrow. Some students end up restricting their choices which limit their higher education and post-graduation opportunities and experiences. Others make sub-optimal choices through no fault of their own. But such occurrences are not randomly distributed throughout the student population; they are socially stratified. Those students who are already disadvantaged are the most likely to be affected. The fallout from Covid-19 may exacerbate these issues too. Thus, arguably, the 2012 reforms have helped to perpetuate, rather than ameliorate existing inequalities.

REFERENCES

- Azmat, G., & Simion, S. (2017). *Higher Education Funding Reforms: A Comprehensive Analysis of Educational and Labor Market Outcomes in England*. IZA Institute of Labor Economics.
- Barr, N. (2010). *Paying for Higher Education: What Policies, in What Order?* [Submission to the Independent Review of Higher Education Funding and Student Finance]. London School of Economics.
- Barr, N., Chapman, B., Dearden, L., & Dynarski, S. (2019). The US College Loans System: Lessons from Australia and England. *Economics of Education Review*, 71, 32–48.
- Belfield, C., Britton, J., Dearden, L., & van der Erve, L. (2017a). *Higher Education Funding in England: Past, Present and Options for the Future*. [IFS Briefing Note]. Institute for Fiscal Studies.
- Belfield, C., Britton, J., & van der Erve, L. (2017b). *Higher Education Finance Reform: Raising the Repayment Threshold to £25,000 and Freezing the Fee Cap at £9,250*. [IFS Briefing Note]. Institute for Fiscal Studies.
- Boliver, V. (2011). Expansion, Differentiation, and the Persistence of Social Class Inequalities in British Higher Education. *Higher Education*, 61, 229–241.
- Boliver, V. (2013). How Fair Is Access to More Prestigious UK Universities? *The British Journal of Sociology*, 64(2), 344–364. <https://doi.org/10.1111/1468-4446.12021>
- Boliver, V. (2016). Critically Evaluating the Effectively Maintained Inequality Hypothesis. *British Journal of Education, Society & Behavioural Science*, 5(2), 1–9.
- Bolton, P. (2019). *Student Loan Statistics*. House of Commons Library.
- Britton, J., Dearden, L., Shephard, N., & Vignoles, A. (2016). *How English Domiciled Graduate Earnings Vary with Gender, Institution Attended, Subject and Socio-Economic Background*. [IFS Working Papers]. Institute for Fiscal Studies.
- Callender, C. (2014). Student Numbers and Funding: Does Robbins Add Up? *Higher Education Quarterly*, 68(2), 164–186.
- Callender, C., & Mason, G. (2017). Does Student Loan Debt Deter Higher Education Participation? New Evidence from England. *Annals of American Political and Social Science*, 671(1), 20–48.
- Callender, C., & Thompson, J. (2018). *The Lost Part-Timers: The Decline of Part-Time Undergraduate Higher Education in England*. Sutton Trust. Retrieved from <https://www.suttontrust.com/wp-content/uploads/2019/12/The-Lost-Part-Timers-Final.pdf>
- Clark, S., Mountford-Zimdars, A., & Francis, B. (2015). Risk, Choice and Social Disadvantage: Young People's Decision-Making in a Marketised Higher Education System. *Sociological Research Online*, 20(3), 110–123.

- Crawford, C., Dearden, L., Micklewright, J., & Vignoles, A. (2016). *Family Background and University Success: Differences in Higher Education Access and Outcomes in England*. Oxford University Press.
- de Gayardon, A., Callender, C., Deane, K. C., & DesJardins, S. (2018). *Graduate Indebtedness: Its Perceived Effects on Behaviour and Life Choices – A Literature Review*. [Working Paper No 38]. Centre for Global Higher Education, UCL. Retrieved from Centre for Global Higher Education, UCL website: <https://www.researchcghe.org/publications/working-paper/graduate-indebtedness-its-perceived-effects-on-behaviour-and-life-choices-a-literature-review/>
- de Gayardon, A., Callender, C., & DesJardins, S. (2021). *Does Student Loan Debt Structure Young People's Housing Tenure? Evidence from England*. Cambridge University Press.
- de Gayardon, A., Callender, C., & Green, F. (2019). The Determinants of Student Loan Take-Up in England. *Higher Education*, 78(6), 965–983. <https://doi.org/10.1007/s10734-019-00381-9>
- Dearden, L., Fitzsimons, E., & Wyness, G. (2014). Money for Nothing: Estimating the Impact of Student Aid on Participation in Higher Education. *Economics of Education Review*, 43, 66–78. <https://doi.org/10.1016/j.econedurev.2014.09.005>
- Department for Business, Innovation and Skills. (2011). *Higher Education: Students at the Heart of the System*. Stationery Office.
- Department for Education. (2019a). *Participation Rates in Higher Education: Academic Years 2006/2007–2017/2018 (Provisional)*. Department for Education, London. Retrieved from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/843542/Publication_HEIPR1718.pdf
- Department for Education. (2019b). *Widening Participation in Higher Education, England, 2017/18 Age Cohort – Official Statistics*. Department for Education, London. Retrieved from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852633/WP2019-MainText.pdf
- Green, F., & Kynaston, D. (2019). *Engines of Privilege: Britain's Private School Problem*. Bloomsbury Publishing.
- Harrison, N., Agnew, S., & Serido, J. (2015). Attitudes to Debt Among Indebted Undergraduates: A Cross-National Exploratory Factor Analysis. *Journal of Economic Psychology*, 46, 62–73. <https://doi.org/10.1016/j.joep.2014.11.005>
- Heller, D. E. (1997). Student Price Response in Higher Education: An Update to Leslie and Brinkman. *Journal of Higher Education*, 68(6), 624–659.
- HESA. (2019). *Non-continuation Summary: UK Performance Indicators 2017/18*. HESA. Retrieved from <https://www.hesa.ac.uk/news/07-03-2019/non-continuation-summary>

- Independent Review of Higher Education Funding and Student Finance. (2010). *Securing a Sustainable Future for Higher Education: An Independent Review of Higher Education Funding and Student Finance*. Retrieved from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/422565/bis-10-1208-securing-sustainable-higher-education-browne-report.pdf
- Johnstone, B., & Marcucci, P. (2010). *Financing Higher Education Worldwide: Who Pays? Who Should Pay?* Johns Hopkins University Press.
- Keese, M. (2012). Who Feels Constrained by High Debt Burdens? Subjective vs. Objective Measures of Household Debt. *Journal of Economic Psychology*, 33(1), 125–141. <https://doi.org/10.1016/j.joep.2011.08.002>
- Leslie, L., & Brinkman, P. (1987). Student Price Response in Higher Education: The Student Demand Studies. *Journal of Higher Education*, 58(20), 181–120.
- Maher, J., Rooney, K., Toomse-Smith, M., Kiss, Z., Pollard, E., Williams, M., & Hunt, W. (2018). *Student Income and Expenditure Survey 2014 to 2015*. Department of Education.
- Marginson, S. (2016a). High Participation Systems of Higher Education. *The Journal of Higher Education*, 87(2), 243–271. <https://doi.org/10.1080/00221546.2016.11777401>
- Marginson, S. (2016b). The Worldwide Trend to High Participation Higher Education: Dynamics of Social Stratification in Inclusive Systems. *Higher Education*, 72(4), 413–434. <https://doi.org/10.1007/s10734-016-0016-x>
- OECD. (2019a). Completion Rate of Full-Time Students Who Entered a Bachelor's or Equivalent Programme (2017). In *Access to Education, Participation and Progress*. OECD. Retrieved from https://www.oecd-ilibrary.org/education/completion-rate-of-full-time-students-who-entered-a-bachelor-s-or-equivalent-programme-2017_23ac0f07-en
- OECD. (2019b). *Education at a Glance*. OECD.
- Office for National Statistics. (2020). *Employee Earnings in the UK: 2019*. ONS. Retrieved from <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019>
- Perna, L. W. (2006). Studying College Choice: A Proposed Conceptual Model. In *Higher Education: Handbook of Theory and Research* (Vol. 22, pp. 99–157). Springer.
- Reay, D., David, M., & Ball, S. (2005). *Degrees of Choice: Class, Race, Gender and Higher Education*. Trentham.
- Shattock, M. (2017). *University Governance in Flux. The Impact of External and Internal Pressures on the Distribution of Authority Within British Universities: A Synoptic View*. Centre for Global Higher Education, UCL.

Ziderman, A. (2013). Student Loan Schemes in Practice: A Global Perspective. In D. E. Heller & C. Callender (Eds.), *Student Financing of Higher Education: A Comparative Perspective* (pp. 32–60). Routledge.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution 4.0 International License (<http://creativecommons.org/licenses/by/4.0/>), which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons licence and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons licence, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons licence and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.