

Degrees of uncertainty

In 2014, nearly 50 per cent of all 18-year-olds decided to go to university. The huge expansion of higher education over the past 15 years has meant that more people than ever get access to the significant benefits that come with a degree: it is estimated that a graduate will earn on average £100,000 more over their lifetime than someone with two or more A levels but no degree. However, are these benefits to the individual to be taken for granted, and will the graduate wage premium hold up as graduates form a greater proportion of the labour market? Is the term 'graduate labour market' even meaningful anymore? The economy needs more highly-trained graduates and postgraduates, and is benefiting from a more highly-skilled workforce, but how is this to be funded in a period of continued public austerity? Does the significant individual benefit that comes from going to university mean that the individual should shoulder more of the financial burden? The following two articles explore the premium associated with having a university education, and how the means of funding that education might impact on individual choices and careers.

Undergraduate and postgraduate choices framed by debt?

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Securing a new funding model for university teaching that was sustainable, yet allowed for higher education to expand to meet demand, had been a central policy aim since the Browne Review was established in 2009. The Coalition's preferred system, which was announced in the 2011 White Paper *Students at the Heart of the System*, raised the fee cap to £9,000 a year and reduced barriers to entry for new providers.¹

For those who designed this policy, it was a triumph: they had ensured that undergraduate taught provision at UK universities would be funded through a mechanism that was 'out of reach' for those in the Treasury seeking to make public sector cuts. The Government would, indeed,

continue to 'fund' university teaching, recognising the tremendous public good that comes from a supply of highly trained graduates. However, it would fund university teaching by giving students access to up to £9,000 a year in loans for tuition, which the students would then pay to their universities. The Government's stake in this arrangement would be to service the debt, write off that which was unpaid after 30 years, and pay the interest on the loans for graduates earning less than £21,000.

At the heart of our university funding system, therefore, is personal debt. However, it is a very peculiar kind of debt. There has been much written about this debt, and much was said in both Houses of Parliament before the policy became law. How would this 'debt' affect students' choices before and after university? Would particular groups in society be more or less inclined to encourage teenage children to go to university and take on this 'debt'? How would our economy and society be affected by a generation of young adults graduating with an average of £41,000 of student debt (including tuition fee and maintenance loans),² then responsible for paying it back over a significant portion of their working life?

Report

The British Academy wanted to understand this debt better, and establish if there was a risk that it would

1. 'Students at the heart of the system' (Department for Business, Innovation & Skills White Paper Cm 8122; 2011).

2. Claire Crawford and Wencho Jin, *Payback time? Student debt and loan repayments: what will the 2012 reforms mean for graduates?* (Institute for Fiscal Studies Report R93; 2014).



adversely affect graduates' choices or career paths – in particular their choices regarding postgraduate study. In 2013, the National Union of Students was commissioned to examine students' attitudes towards debt, the information available to them about debt and finances, and the impact debt has on decisions to continue with further postgraduate study once they complete their degree.³

At first glance, the results were surprising. Students did not consider their loan as 'debt', they did not perceive themselves as being in debt, and were not concerned about graduating owing many thousands of pounds. Indeed, the Office for Fair Access has since confirmed that the rise in tuition fees has not had the damaging effect on the demographic profile of those entering university as many had feared in 2011.

A reason for these attitudes could be that student debt as it is currently designed in the UK is not like other forms of debt. It does not require a credit check, there are no immediate demands for repayment because the debt is only paid back when the graduate is in work earning above a certain amount, and collection agencies only start knocking on doors if graduates purposely avoid making repayments. It would make sense, therefore, for students to have a vastly different attitude towards the risks associated with a £40,000 student debt versus a £40,000 bank loan. Additionally, student loans are written-off by the Government after 30 years. If you have never entered the labour market, or never earned above £21,000 per year, you will simply never repay this loan. It was estimated that two-thirds of all graduates under the current system will never pay off their loan in full during the 30 year period. This translates to around 45 per cent of all loans issued being unpaid by graduates, and therefore paid-off by Government.⁴ Without the pressure to pay whatever one's financial situation, it is not surprising that students with loans for tuition fees do not consider themselves to be in debt in the standard sense.

3. *Student attitudes to debt and its impact on postgraduate participation* (NUS Services for the British Academy; September 2014). Available via www.britishacademy.ac.uk/policy/research_and_he_policy.cfm
 4. J. Thompson and B. Bekhradnia, *The cost of the Government's reforms of the financing of higher education – an update* (HEPI Report 64; December 2013).

There are, however, similarities between student debt and regular debt. These similarities become more significant when placed in the context of a worrying trend shown by our NUS research, namely that students are not fully informed of the debt burden before they begin university, and also overestimate the amount of student support available to them at postgraduate level.

Postgraduate study

Once repayments start, a student loan still reduces 'take home' pay. This affects the ability to apply successfully for a range of financial products later in life, alongside having an effect on a person's quality of life and disposable income. With the size of the loans dramatically increasing in 2012, and the average repayment term lengthening, the full impact of this reduction in take home earnings across a person's 20s, 30s, 40s, and 50s (in some cases) is not yet known. In April 2014, the Mortgage Market Review decided that student loan would be taken into account when calculating eligibility for a mortgage – student loans erode income, and do so for a long period of time.

So, whilst student loans do not incur the kinds of burden of standard debt, they will impact on future financial choices, especially once the reality of repayments kick in. For students not wishing to put off the possibility of getting a mortgage indefinitely, decisions such as whether to continue studies to postgraduate level would intuitively be affected by levels of debt. However, the British Academy and NUS study suggested they were not. The reason for this was that students were unaware of the challenges of securing funding for postgraduate study, with many believing that funding was available and accessible. The reality, of course, is that it is not.

In 2012, the British Academy published a position statement on the funding system for postgraduate education. In it, the Academy argued that the Government needed to give serious consideration to a state-backed loan system for postgraduate study, much like the one in place for undergraduates. The Academy's position statement was followed by a number of reports by the Higher Education Commission, Centre Forum, and the Universities Alliance, all of which made similar calls. There was particular concern that, as a financially burdensome bank loan is one of the only options for funding postgraduate taught degrees in the humanities and social sciences, the supply of researchers would dry up, and employers who value the higher level skills gained in postgraduate education would see a skills gap.

In the Autumn Statement 2014, Chancellor George Osborne announced just such a state-backed loan system for postgraduates. It will cover all disciplines, for prospective students younger than 30, up to the value of £10,000. The exact repayment mechanism is not yet known, but it is expected to be more onerous than that for undergraduates, with as low as possible a percentage of debt write-off by Government. This is seen to reflect the substantial personal benefit gained from studying at postgraduate level.

Information

This announcement is very welcome, but the British Academy will be continuing to ask questions about the implications of debt on choices made by students, particularly as it affects research careers. What has become most apparent from the NUS research, and research by others, has been how starved of information many students are, at important moments of choice during their university careers. Students appear to have little information either about debt or about the financial impacts of further study.

Much has been written about the decimation of adequate information, advice and guidance at schools. Organisations as diverse as the Russell Group, the CBI and the TUC all lambasted the current Government for closing the Connexions service (widely regarded as being patchy at best) but replacing it only with a statutory duty placed on schools to provide some form of independent advice. Only very recently did Secretary of State Nicky Morgan MP announce a replacement for Connexions – a careers and enterprise company, that will bring employers to schools and explain what the labour market has to offer young people.

However, there has been less written about advice available at universities about academic careers. Universities have responded to the ‘employability challenge’, students wanting to make sure that their £9,000 a year will lead to a healthy salary, by focusing resources on careers advice for employment post-graduation. There remains a gap, however, in adequate, honest advice about continuing careers in academia, or indeed the funding choices available for postgraduate research and study. It is not clear how well academic career paths post-PhD are understood by students, and with limited resources, universities are likely to focus their advisory capacity on graduates looking for a quick employment return on their educational investment. All evidence points towards students making more demands on the education system as a result of increased tuition fees, and associated debt.

There is concern that with debt building through undergraduate and postgraduate education, a continued academic career is unlikely to be the most attractive option for the brightest students. In our NUS survey, those students wishing to continue academic study had a very rosy view of the options available to them to fund further study. The truth about limited career options within academia should not be a reason to put off the brightest from beginning a PhD, but that they should begin the process with a realistic idea about the likely future.

The new plans for postgraduate loans are a welcome development in providing a route into postgraduate study. There is still much to be learned about the impact of the tuition fees and student loan system on student choices. The perceptions that students have now may change when the reality of repayments hit. We need to be sure that this reality won’t discourage the best students from pursuing research careers and taking on further debt for postgraduate study.

The portrayal of the graduate labour market in the media

The permanent state of perplexity and discontent

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In recent years, the popular media has been flooded by news stories about the state of the graduate labour market. Numerous studies and reports as well opinion pieces on the job opportunities and earnings of (new) graduates keep receiving wide attention in Britain’s broadsheets, smaller newspapers and other news channels. There tends to be great pessimism or shock value in stories with headlines such as ‘Graduate job opportunities shrink amid economic uncertainty’, ‘The Cambridge graduates grateful to earn £7 an hour as Amazon drones’ and ‘University graduate finds work as human scarecrow’. This glumness is illustrated by the views of experts like Michael Barnard, product manager at Milkround:

Graduates can’t expect to just walk into a decent job any more. If you want to work in London – God forbid, it’s the hardest place to find a job in the world – you will have to accept that you probably need to live in a house-share with five strangers, work in a café to pay the bills and start at the bottom with a big employer.¹

Many articles describe how graduates have great difficulty finding any kind of employment or carry out unskilled work in order to survive. Other news articles with titles such as ‘Graduates stuck in low-skilled positions’ or ‘More graduates become shelf stackers as economy slides’ cover research on the mismatching of skills. The risk of skills mismatch is often linked to a particular degree, such as media studies, as it is claimed there is little demand for graduates in these subjects. In one article an employer is quoted saying, ‘Some degrees have no career opportunity at the end and the graduate ends up working in a coffee bar.’² The desperate situation of the graduate labour market is underlined by stories about students who decide to choose apprenticeships over a university

1. Cited in L. Peacock, ‘Graduate jobs: Do graduates need a first-class degree to get a good job?’ *Daily Telegraph* (4 July 2012).

2. D. Wooding, ‘£50k debt ... but many graduates WON’T earn more’, *Sun* (19 August 2012).

degree after sixth form, or to pursue a professional degree in a specially designed alternative corporate programme, such as exist within some accountancy firms.

The stories of declining fortunes for graduates do not come out of the blue. Many of the stories that appear in the popular media are linked to findings of research studies on, for instance, unemployment, employers' demands, or the role of universities in the economy. Graduates are positioned in opposition to adverse labour market effects. The fact that new graduate labour entrants are unable to find relevant employment is seen as not only problematic but also puzzling. The graduate labour market is considered to be distinct from the rest of the economy and placed at the top of a labour market pyramid. It is assumed that those workers with a university degree together constitute the elite of the labour market and have jobs in which special skills are required, and they are rewarded with high salaries.

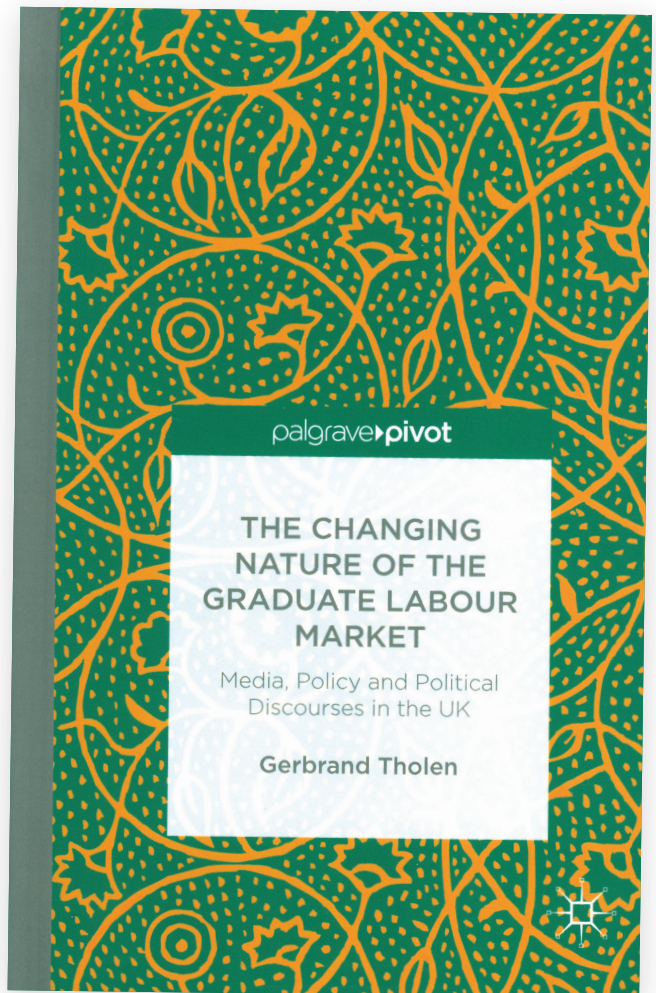
This represents a general misunderstanding of the changing nature of the graduate labour market. Much of the empirical evidence tells another story. The UK graduate labour market is in flux. Because of the rapid growth in the proportion of graduate workers in the UK labour force – combined with shifts in occupational structure, organisational change and global integration – the relationship between jobs, skills and rewards is fundamentally altered from the past.

First of all, graduates increasingly take employment in traditional non-graduate occupations. The definition of what constitutes a graduate occupation is rapidly changing.

Secondly, many organisations that recruit graduates no longer focus on the hard skills and knowledge that are often associated with higher learning. Instead, soft skills such as interpersonal skills are of increasing importance. These skills are not exclusively formed while people are studying at an institute of higher education. In other words, the skills that graduates possess are not always exclusive to graduate workers. It is therefore better to talk about the skills of graduates than about graduate skills.

Thirdly, earnings of graduates are diverging, leading to an increase in wage inequality among graduates as a group. Why this happens remains unclear. It could be due to occupational change, or shifting supply and demand for certain skills or characteristics. Both at the bottom and the top of the wage distribution scale, earnings have become more extreme. What this means is that the association between university qualifications and earning potential is becoming more complex.

But media commentators and journalists still tend to focus on the strong association between skills, jobs and rewards and university qualifications. Graduate workers' skills and jobs are deemed to be inherently valuable and desirable entities. The graduate labour market is regarded not only as the top layer of the labour market, incorporating the high-skilled and better-paid jobs, occupations and professions, but also



as the saviour of the economy and the route to a more just society. In addition, higher education is privileged as a skills-acquisition route. In many of the individual stories on graduate unemployment the most important element is the fact that they concern a graduate *vis-à-vis* a non-graduate. Similar stories about those with lower-level qualifications do not appear as frequently, or these people's educational background is less emphasised. The relatively high rate of youth unemployment is not supposed to affect graduates, who expect to be employed after their investment in advanced education. Underneath this lies the implicit assumption that the experiences, knowledge and skills (human capital) of the brightest and best-educated should interest employers.

But the graduate labour market is not an insular, independent or isolated social, political or economic phenomenon. The state of the UK's post-recession graduate labour market currently depends, and will continue to depend, on how work is organised; how and which skills are being developed, supplied, demanded and used; how rewards are distributed; and how capitalism itself is developing, among other developments.