Exploiting the exploitable: The financialisation of students in English universities

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Introduction

This article conceptualises and problematises a growing practice among a number of English universities of borrowing from capital markets by pledging their anticipated income from student fees as collateral. Investigation of this scarcely-discussed phenomenon (Connolly, 2018) is pertinent because higher education and capital markets are now globalised, with policy markedly isomorphic. What therefore happens among universities in vanguard countries such as the UK has frequently emerged elsewhere – such as in Finland's recent foray into charging international student fees (Välimaa & Weimer, 2014). This article sounds an imperative clarion call for further investigation of these issues.

Large firms often sell debt to capital markets but, unusually, a number of charitable, not-for profit universities in the UK are venturing at pace and scale into this activity, borrowing on fixed-terms by creating *ad hoc* financial instruments (Hale, 2018). The source of funding they often access is a type of 'private credit' offered by those looking for substantial returns (Wigglesworth, 2021). Private credit is the fastest growing sector for financial intermediaries[1]and is largely unregulated. Deficiencies in scrutiny and accountability lead to a paucity of knowledge about the operation of the private creditor market. Wigglesworth (2021) suggests that this opacity provides a major motivation for lenders because valuations of borrowers' assets (and therefore the cost of borrowing) are typically subjective rather than market tested. Universities are small, inexperienced and under-informed players in this market, but their borrowing from private creditors has increased over twenty years (Armstrong & Fletcher, 2004).

These asymmetries may permit private creditors to enforce their own subjective valuations and loan conditions, engendering significant change in the nature and functioning of universities as they adapt to look attractive to and meet the requirements of these financiers. We argue that the unregulated finance sector is, consequentially, a *de facto* significant actor in the development of higher education in the UK, and England in particular – an influence iatrogenically enabled by government higher education policy. We focus on the complex interplay between government policy, universities, and global financial intermediaries to reveal how processes of financialisation are now impacting university communities. Of particular concern are students, whose fees now constitute a securitised income stream for universities to repay their borrowings. As such, students themselves have become securitised assets, their interests now subservient to the need to ensure a steady income stream to satisfy lenders. It follows that the public benefit mission and ethos of universities may also be undermined, possibly fatally.

Financialisation: From values to value

Adam Smith (2011 [1759]) reasoned that our natural self-interest is best served when mutually beneficial social and economic exchange is facilitated by positive peer-evaluation of socially acceptable conduct. This engenders a spontaneous ordering of social and economic exchanges that embody good moral sentiments, or values. Mauss (2008 [1924]) likewise recognises that exchanges are constitutive of the ordering of social relationships. Successful and fair exchange produces a prosperous and good society. To fail to fairly reciprocate an exchange constitutes parasitical behaviour (Pyyhtinen, 2014) that is destructive of social relationships, and hence values.

In the mid-20th century, Polanyi (1944) noted the ousting of such cooperative socioeconomic exchange by market competition and the profit motive. Market economies have since expanded, facilitating globalised fast flows of money, commodities, goods and services, ceding extraordinary power to the financial systems which support them (Boden, 2019).

'Financialisation' is a complex concept (Engelen, 2014), its weak form marked by the grow-

ing power and influence of financial systems over the substantive economy where goods and services are produced. There is an 'increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005: 3). In strong financialisation, financial systems become the substantive economy and the production of goods and services a secondary consideration:

> A pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production… 'Financial' here refers to activities relating to the provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains (Krippner, 2005: 2–3).

Financial systems exchange cash and cash-equivalents between market participants to generate a financial return. Investment involves payment for equity or debt, and investors accept some of the borrower's risks directly. With loans, lenders seek only to gain from the value of the debt, expressed as the agreed interest payable, and they have final recourse to the 5 debt's guarantors (the security). Financialisation is rooted primarily in debt, created via a complex array of contractual instruments that transfer liquid capital, or the right to use a capital asset (such as a building), from lender to borrower. In return, creditors gain a future income stream. Instruments of borrowing include conventional bank loans, and extend to bonds and leases of physical assets. Debt is an asset in the lenders' hands because of the future promised income stream (from student fees). Debts can be securitised, therebybecoming tradeable commodities whose valuation is contingent on the associated futureincome streams. Significant markets exist where debt-assets are bought and sold.

Lenders are at risk from borrowers defaulting. Whilst elevated risks increase the rate of return demanded, lenders attempt to mitigate risks to strengthen the market value of securitised debt. Lenders might take collateral through physical assets such as buildings (as in a mortgage) or demand deposits in escrow accounts (Armstrong & Fletcher, 2004). Lenders may also assess the borrower's performance, typically by using metrics. Potential borrowers will therefore be anxious to meet lenders' expectations in order to achieve favourable rates, adjusting their behaviour, organisational profile, and performance accordingly. The accelerating scale of debt-creating activity and risk mitigation measures have given lenders considerable power over borrowers in the real economy, denuding it of wealth as the efficient production of socially useful goods and services ceases to be the primary purpose of economic exchange (Hudson, 2012; Wolf, 2019).

Because financialisation aims to make money out of money rather than investing it to produce socially useful goods and services, it has been characterised as rentier capitalism (Hudson, 2012). Economic rent is where the owners of factors of production – capital – exact returns in excess of the cost of keeing those factors in production. Parasitically, economic rent unfairly appropriates value created by fair and mutually beneficial economic exchange. Accordingly, instead of Smith's social values, financial value can become the dominant factor in exchange relationships (Wolf, 2019).

Finance markets are driven to expand into sectors such as higher education partly because of executive bonus schemes. In banks, shared bonus pools are calculated as a percentage of accounting-based returns, which comprise free cash flow from actual profits plus 'mark-to market' gains – the adjustment of book values of assets (such as a debt) to reflect its presumed current value (Roberts & Ng, 2012). This practice drives executives to seek out fresh sectors, such as universities, where gains are often highest as there is less competition to drive down returns and hence asset values (Bowden & Posch, 2011). For a number of private financiers, certain public universities are considered attractive targets for loans as they expect government to underwrite the debt of this critical national sector (Dill, 1997; Hale, 2018).

Financing universities

UK universities' primary sources of income to meet recurring and capital expenses are grants from the state or other benefactors, contractual payments for performance of specified tasks, and student fees. These funding streams are imbricated with different forms of exchange and, therefore, differing power relationships and organisational forms. Grants are gifts given as part of a reciprocal exchange relationship (Mauss, 2008 [1924]) in which universities receive funds in exchange for the gift of knowledge to society. In this exchange

relationship, scientific work is 'organizationally, culturally, and financially separate from, and independent of, the sites of its ultimate consumption or exploitation' (Baskaran & Boden, 2007: 10). Rawolle & Blackmore (2017: 114) call the performance of specified tasks in return for payment under contract 'contractualism'. They argue that contractualism indicates a policy turn in which 'contracts and contract-like mechanisms are used as means of governing, mediating and modulating risk and responsibility', steering universities towards desired outcomes. A good example of contractualism is the Finnish government's system of formal 'performance agreements' with individual universities (de Boer & Jongbloed, 2015). As for universities' third source of income, anything more than nominal student fees implies that universities provide teaching as a consumption good for which the student pays. To attract fee income, universities must respond adroitly to perceived market demand from students-as-customers (Dodds, 2011).

The nature of UK universities' income has varied over time, mapping onto their changing nature and socioeconomic relationships. Until the early 1980s, UK universities were part of a social economy of gift exchange with the state. Universities were funded primarily by grants from independent University Grants Commission (UGC) under arms-length arrangements in which the government had little control over universities. However, from 1979, Margaret Thatcher's governments supplanted this with the contractualism of New Public Management, with payments contingent on performance. The UGC was eventually replaced by funding bodies, which exercised stricter, strategic control of state financing of universities.

At the end of the 1980s, the government facilitated the conversion of polytechnics and other non-university higher education institutions into universities. The limit on student numbers was substantially raised to massify the system, but absolute funding was frozen. Universities competed with one another for a limited resource by increasing their student intake, with significantly reduced government spending per student (Lawton, 1994).

From, 1997, under New Labour governments, marketisation continued with a shift from contractualism to universities being funded by fee-paying students-as-customers. New Labour announced the introduction of a mandatory upfront, means-tested tuition fee from 1998 and the complete replacement of student maintenance grants with government loans. Henceforth, students could borrow from the government for their fees and support. In October 2010, a new Conservative-led coalition government trebled the fees cap to £9,000 a year from 2012 and announced the cessation of almost all direct government support for undergraduate provision. Now, government borrows money and lends it to students to pay their university fees. Repayments are time-limited and income-contingent once students start working.

The UK government currently lends more than £17 billion a year to some 1.3 million students at English institutions of Higher Education (as Wales, Northern Ireland and Scotland now have their own systems), and the value of outstanding loans at the end of March 2020 reached £140 billion. The Government forecasts

> the value of outstanding loans to be around £560 billion (2019-20 prices) by the middle of this century (Bolton, 2020: 3).

This substantial public asset is fraught with risk. The government anticipates that only 25% of borrowers will fully repay their loans. For the next 20 to 30 years, it is expected that outlay on student loans will exceed repayments by up to £20 billion a year (Bolton, 2020). The financing of undergraduate education at English universities imposes considerable cost on taxpayers, whilst those lending to the government can profit.

Student debt is a government asset which can be securitised and sold, generating cash flow. Government has sold off much of this debt but has now stopped over value for money concerns (Hubble & Bolton, 2020). The high default rates risk deep discounting of book values, and government responds to this threat by keeping interest rates high (currently 5.6%) and by manipulating the income thresholds at which repayments start and time-out in order to make the debt more attractive to potential buyers. This means that students bear the default risk collectively, despite the justification for student fees being that students benefit individually from a degree, and so should pay for themselves (Barr, 2004).

The switch in universities' income base to student fees has fostered competition between them, including encouraging the emergence of 'alternative providers' – mostly for-profit organisations. Government cannot make grants to for-profit organisations but can

lend to students to buy their education from them. Students at alternative providers were initially subject to an annual £3,375 borrowing cap. In 2011 the government lifted this cap to circa £6,000 a year, where it remains. The availability of state-subsidised loans substantially expanded the numbers of loan-assisted students at alternative providers from 7,000 in 2010/11 to some 35,000 in 2019, and borrowings by these students are currently around £150 million a year (Student Loan Company, 2019). Taxpayers and all students who borrow are therefore subsidising the buying power of these private universities' student-customers.

Borrowing

Maximising student fee income in a competitive market necessitates attracting student-customers. Many universities have embarked on significant development of their campus facilities so that student-customers will see universities as objects of desire (Barnett, 2018). As government has withdrawn grant support, universities have sought investment capital from financial intermediaries. Universities' not-for-profit status prevents markets from taking equity stakes, so they lend instead. The nature and scale of much of this borrowing is unknown (Connelly, 2018). Lloyds estimates that UK universities borrowed more than £3 billion between 2016 and 2018, around half of which came via the private placement of debt among financial intermediaries (Hale, 2018). The total annual income of the UK's higher education sector is around £30 billion. Whilst borrowings are significant for UK universities, the loans involved are not significant for capital markets.

A recent example of this type of financing is the University of Portsmouth's sale of debt in March 2018, as an interest-bearing bond:

> UK universities have acquired something of a taste for capital markets. This week it was the turn of the University of Portsmouth, which has secured £100m from two North American institutional investors through a private placement of debt …The money will be spent on the first phase of "estate development". It is expected to involve a number of buildings, including an indoor sports facility, the extension of a lecture hall, and a flagship "teaching and learning building" (Hale, 2018).

Portsmouth, a non-elite, post-1992 English university, is not unusual. For instance, in 2016, Cardiff University borrowed £300m in a forty-year deal, and in 2017 the University of Bristol raised £200m from a US investor, while Oxford University borrowed £750m through a 100- year bond (Hale, 2017). Cardiff, Bristol and Oxford are all members of the prestigious-Russell Group.

Universities aim to service and repay loans from private creditors largely from fees that they expect to receive from students, effectively offering the fees as security to private creditors. This securitisation means that students are the ultimate risk-bearers of those loans because students would forfeit their investment in university education if, for whatever reason, private creditors decide to recall their loans and universities take compensatory action, such as in closing courses. Borrowings from regulated lenders are reasonably protected from arbitrary recalls, but unregulated private credit loans have no such protection, enabling creditors to take ownership and control of all assets that were offered as security for their loans. As many students already borrow to pay their fees, they could be faced effectively with two lenders for the same course.

Accordingly, borrowing from private creditors is fraught with risk: Connolly (2018) suggests that some recent borrowings might 'verge on the speculative'. He cites the example of University College London, which borrowed £280 million from the European Investment Bank for a massive capital investment without properly appreciating the expansion in student numbers necessary to service the loan. In 2016, the provost told staff that the university had just 42 days' operating cash left. These risk levels drive up the cost of borrowing – especially under private placements of debt, which embody no open market testing of rates. Relying on student income to service debt can produce financial instability as universities struggle to generate sufficient income to service loans as well as to repay the principal. Re-financing to keep loans open is likely to become more expensive for institutions struggling to cover capital costs. The University of Leicester appears to be experiencing such difficulties (Weale & Hall, 2021).

Risks of lending to universities are assessed by reference to lenders' metrics. '[T]here are clear material consequences for weak "ranking" performance' (Hale, 2018) because it makes borrowing more expensive. Hale (2018) notes 'the emphasis placed on university rankings in the [Portsmouth] deal's press release' and argues that

rankings 'are a critical part of the emerging financial infrastructure for universities':

> The actual quality of information within the rankings is a separate issue; what is important is that some category of information of this kind is needed to oil the overall machinery. There are many other sources of information available to the lender, including the institution's balance sheet, but rankings relate to a major and often under-acknowledged source of uncertainty: the projection of future tuition-fee income streams, especially those from international students (Hale, 2018).

Borrowing on the basis of future, unrealised income stresses universities financially, which must expand student numbers in competitive markets informed by metrics. Market laggards will develop poor credit ratings, and future borrowing will become more expensive (Connolly, 2018). Yet UK governments have proven markedly more reluctant to support the notion of bailing-out their universities (Department for Education, 2020; Hale, 2018). As the Department for Education (2020) makes clear, bailouts are contingent on universities doing the government's bidding.

Discussion

The shift in university funding to student fees impacts primarily students from less well-off families, as the introduction of student fees and the ending of maintenance grants have obliged disadvantaged students to borrow from government to fund their education. We suggest that this borrowing has occurred because disadvantaged students have fewer family resources to sustain them, and borrowing that they can ill afford has resulted in substantial personal indebtedness (see, for example, Clark et al., 2015; Clark et al., 2017). The efforts to maintain the book value of student debt by inflating interest rates and lengthening liability periods mean that students not only bear their own risks for borrowing, but also the risks of defaulting students. In addition, students' fees are *de facto* part-security for the money borrowed by universities. Accordingly, default by universities who indulge in this borrowing has effectively placed students' educational future at risk.

This financialisation of students shapes universities, including course offerings, staffing and pedagogy. Metrics such as the National Student Survey inform prospective students' choices and provide feedback to shape the student experience offered. Education becomes geared towards providing marketable courses with metrics that support the supposition of strong customer demand. Universities are unbundled so that unprofitable areas can be axed. Students are reconceptualised as consumers, not scholars (Barnett, 2018):

> The disaggregation of 'The Student' into this dispersed range of abstractions facilitates the monitoring and representation by senior university managers of 'student voice' and 'student experience'. These are figures wielded by university managers to force poorly thought-through changes to curriculum, teaching practices and timetables upon professional educators, who are systematically disempowered as experts despite being the primary interface through which the learning experiences of students is mediated (Barnett, 2018: p.4).

This conceptualisation of students-as-customers is reflected in the decisions of universities in September 2020, during the COVID-19 crisis, when the UK government refused to underwrite English universities' potential income loss. Under this market model, students were then called back to university to pay full tuition and accommodation fees, with devastating public health effects (Marginson, 2020).

Under this régime, staff must become a workforce that is micromanaged with a view to producing the 'right' metrics and defending the student revenue stream. Staffing is oriented towards meeting this created student demand, rather than the demands of scholarship. Research cannot be securitised in the same way that future student income can be: For example, there can be no guarantees of grants or patents. Staff interests, work, and remuneration all come second, as evidenced by the battle being fought over pensions. Traditional final salary pensions embody significant contingent liabilities in universities' balance sheets, making them look unattractive to lenders. Hence, in recent years, some UK universities have organised staff pensions as 'savings schemes', which embody no employer contingent liabilities and transfer all risk to employees (Barnett, 2018).

As with many other key social sectors, financialisation of higher education commodifies univer-

sities for monetary value without due consideration of the social values that created them. The risks are high where *ad hoc* debt instruments create a market where mainly young students with comparatively modest current incomes and prospects are the source of repayment. Higher education is a messy, quasi-market (Dill, 1997), and lenders of private credit appear to believe that the UK government will continue to support students by keeping their financial and social investment in universities intact. Those lenders appear unconcerned with the implausibility of this premise because they are anyway well secured on commercial terms that they are familiar with. By contrast, university borrowers continue to publicise their own naivety by failing to consider the implications of this reality, projecting their inexperience by entering into agreements with private creditors on creditors' terms, whilst the nature of their principal activity concerns public benefit. The mismatched focus on market and not social value suggests that universities have in fact abrogated their public mission.

The problem of unsustainable borrowing through financial intermediaries has grown under the presumption of university borrowers that this represents an uncomplicated route to accessing funds from willing lenders. University borrowing from private creditors is unregulated, and there is little evidence of any effective governance, knowledge, or even awareness of this practice among many university officers and the general public. The paucity of public knowledge seems to follow from universities' continuing interest in keeping their borrowings private, and this issue has been left to a few national newspapers to discuss. Yet we have seen in the examples of deal-making in this article that while unregulated lenders are indeed willing to lend to a number of English universities, they have lent on terms that are secured on the future of hapless students. To this extent, those universities have sealed a Faustian pact for their students. ■

1 Financial intermediaries are regulated or unregulated institutions or individuals who facilitate financial transactions between third parties. In recent years, the term has referenced largely unregulated, privately owned institutions (such as cryptocurrency dealers) that channel funds from third parties to borrowers

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