Why nobody need lose in this system

Rather than being a handicap, the proposals to introduce top-up fees will prove a boon to students, argue Nicholas Barr and Iain Crawford

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Saturday January 24, 2004
The Guardian

Many more people go to university following an enormous expansion of higher education. It has moved from an elite system in the 1960s, when 5-6% of young people went to university, to a mass system, with a 43% participation rate, and rising.

If we returned to the 1960s, seven out of eight of today's students would not be at university - the students in the first two rows of the lecture theatre would stay, those in rows 3-16 would have to leave.

There are four sets of facts that explain what the new higher education bill means for students and graduates from 2006.

Higher education will be free for students: The bill abolishes the current upfront fee: students will not have to pay them; nor will parents, thus sharply reducing the contributions parents are supposed to make, and in many cases eliminating them entirely.

Instead, the Student Loans Company will pay money into the university's bank account to pay each student's fees.

The Student Loans Company also pays money into the student's bank account to pay his or her living costs. A problem up to now has been that the loan for living costs has been too small, impaling students on credit card debt.

The bill increases the maintenance loan from 2006 so that it will come close to covering realistic living costs, making students much less reliant on credit cards or overdrafts.

Repayments by graduates are a payroll deduction, not credit card debt: Before 1998, student loans had fixed monthly repayments like a mortgage. In a fundamental change, the loans of students starting in 1998 or later have repayments linked to a graduate's income, collected alongside income tax and national insurance contributions.

At present, a graduate repays 9% of his or her earnings above £10,000 per year. From 2006, under the proposed new scheme, repayments will be 9% of earnings above £15,000; thus someone earning £18,000 will repay £270 per year, or £5.19 per week.

Loans linked to income are very different from credit card debt, which has a high interest rate, a short repayment period, and no forgiveness if earnings are low.

Instead, loans have built-in insurance against a graduate's inability to repay, so low earners make low or no repayments. In fact, repayments drop instantly to zero if someone stops earning because they become unemployed or leave paid work to look after children.

And people who never earn much do not repay. The bill reinforces the last point because any loan that has not been repaid after 25 years will be forgiven.

The table gives examples using today's rates of income tax and national insurance contributions and the 2006 loan repayment formula.

One point shines out: payments are small compared with income tax and national insurance contributions.

Also, a larger loan has no effect on monthly repayments (since they depend only on the person's income). Instead, a person with a larger loan will repay for longer, though with the option of repaying faster if he or she wishes.

From the point of view of the student, higher education is free. From the point of view of the graduate, the arrangements in the the government's proposal are like the old grant system financed out of income tax, except that the repayments:

· Are only by people who have been to university and benefited financially; and

· Do not go on forever.

WHO PAYS WHAT	Bill	Fiona	Tariq	Jane	Justin
Annual earnings	£15,000	£18,000	£20,000	£24,000	£50,000
Income tax (monthly)	£170.79	£225.79	£262.46	£335.79	£1,035.73
NI contributions (monthly)	£95.20	£122.70	£141.03	£177.70	£416.00
Loan repayments (monthly)	nil	£22.50	£37.50	£67.50	£262.00

Graduates' repayments are only a small part of the cost of higher education: In 2006, when the bill is intended to take effect, tuition fees will bring in about one-sixth of total public spending on universities.

A £20,000 loan is also small compared to the overall burden a typical graduate's income tax and national insurance contribution bill which amounts to about £850,000 over a 40-year career.

Quite rightly, no student or parent loses sleep over a career tax debt approaching £1m, because he/she thinks about tax in terms of monthly, income-related payments rather than cumulative totals.

There is additional help for students from poor backgrounds: The bill brings back a £1,500 grant for students from poor families. This grant is in addition to the student's entitlement to a loan.

The first £1,200 of any fees will be paid by taxpayer. Students who qualify for fee remission will not have to repay this element of fees out of his or her earnings as a graduate. Charles Clarke has said that the Department is seeing whether it might be possible, instead, to add this £1,200 to the grant, bringing the total grant to £2,700.

Universities that charge fees above £1,200 will be expected to help students from poor backgrounds to pay those fees.

The combined effect of these three elements is that no student from a poor background is disadvantaged by the changes.

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