Recession and the student – how will recession hit students and what should higher education institutions be doing to support those in financial need?

1 The backdrop
2 The current strategy
3 How will the recession hit students?
4 What should higher education institutions be doing to help?

1 The backdrop

The world has changed

- **Proposition 1: the world has changed**: 50 years ago higher education was not important in economic terms. Today it matters:
  - To promote core values (as always)
  - To pursue knowledge for its own sake (as always)
  - To promote economic growth in competitive economy
    - Technological advance a major driver
    - Higher education is vital both for national economic performance and for individual life chances
- Specific objectives: widening participation, quality, efficiency

What's ideological and what isn't?

- Balance between market and state: mainly technical, rooted in the economics of information
- Ideological: widening participation
- **Proposition 2: students matter**

2 The current strategy

Leg 1: paying for universities: deferred variable fees

Variable fees

- Promote quality
  - by bringing in more resources, and
  - by strengthening competition, creating incentives to use those resources efficiently
- Counter intuitively, variable fees are also fairer
  - Why should a student at Balls Pond Road Tech pay the same fee as at a world-class university?
  - Given the gradient in participation, arguing for higher fee subsidies is like arguing for higher champagne subsidies

Mistake to avoid: ‘big bang’ liberalisation

Does competition work?

- Yes when consumers are well informed
- Are consumers well informed?
  - Students are mostly a savvy, streetwise bunch
  - Much information is available and more can and should be made available
  - Good information is a central source of quality assurance:
    - On the student experience
    - On teaching
    - On employment outcomes

Leg 2: student support: free at the point of use

- Loans should
  - Have income-contingent repayments
  - Adequate, i.e. large enough to cover all fees and all living cost
  - Universal: all students should be entitled to the full loan
- Thus
  - Higher education is free at the point of use
  - Students are no longer poor
  - Students are not forced to rely on parental contributions, extensive paid work or expensive credit card debt
- Mistake to avoid: blanket interest subsidies

Loan repayments in the UK (2006 scheme)

	Bill	Tariq	Tim	Jane
Annual earnings	£15,000	£20,000	£30,000	£50,000
Income tax (monthly)	£161.19	£252.86	£436.19	£945.58
NI contributions (monthly)	£91.26	£137.10	£228.76	£274.93
Loan repayments (monthly)	£0.00	£37.50	£112.50	£262.50

- Low earners make low or no repayments
- Repayments automatically and instantly track changes in earnings, exactly like income tax and national insurance contributions
- Loan repayments are generally much smaller than income tax or national insurance contributions

Leg 3: active measures to promote access

- Widening participation
  - Raising attainment
  - Improving information/raising aspirations
  - Money measures

Mistake to avoid: underestimating the influence of attainment

What are the real determinants of participation?

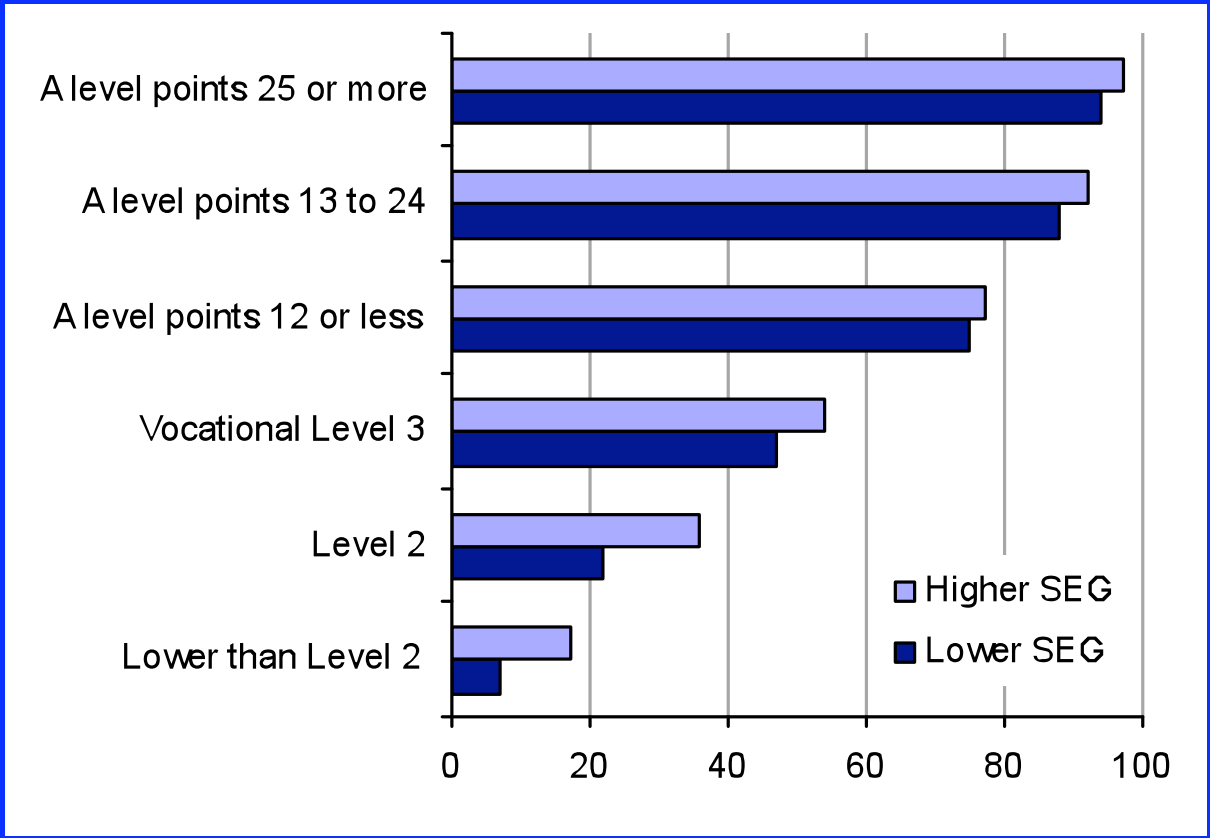
- According to ‘pub economics’ it is obvious that ‘free’ higher education widens participation
- Pub economics is wrong

If all else fails, look at the evidence

- Where are there the biggest social benefits?
  - Answer: at younger ages
- Where is the most public money spent?
  - Answer: at later ages
- Who gets the best GCSEs?
  - Answer: the children of professionals
- Who stays on after 16?
  - Answer: those with the best GCSE marks
- Who goes to university?
  - Answer: those with the best A level marks

Who goes to university? It's attainment, stupid

Source: Office for National Statistics (2004, Figure 2.15)



3 How will the recession hit students?

Many factors cut both ways

- Some parts of the economy have a counter-cyclical aspect
  - Movement from Harrods to Asda
  - Movement from the Ritz to Dominos Pizza
  - Movement from Saville Row to Littlewoods
- Thus the overall effect of the recession is mixed

Staying on at 16; the demand for places

- Relatively more attractive to build skills when job prospects are not good, hence the opportunity cost of study is lower
- Thus the demand for places may become more competitive

  ‘Recession brings a scramble for university places: A late surge in university applications is putting extra pressure on sixth formers to achieve top grades in their exams. Figures out today show almost an 8 per cent increase - about 42,000 - in applications for full-time study at university, the biggest in eight years, with many of the applications received in December and January’ (Times, 16 Feb 2009, p. 15)
- The restriction of student numbers is not helpful

Finance

- State support for fees and living costs
  - No sign of decline in the basic arrangements, though unlikely to increase in short run
  - Unless the interest subsidy problem is fixed, no prospect for filling the current gap in support for part-time students and postgraduate students
- Parental support: declining parental job prospects in short run; an unambiguous problem
- Student jobs
  - Decline in total number of jobs during recession
  - However, employers may trade down, with rising number of jobs for students, directly or via agency jobs

4 What should higher education institutions be doing to help?

4.1 Financial support

- Hardship funds
- On campus jobs

4.2 Financial education

Information about existing student support

- Fight disinformation and scaremongering ('high fees, high debt', conflation of student loans with credit card debt)
- Message 1: higher education is free to the student (it's graduates who make repayments)
- Message 2: loans have income-contingent repayments
  - Thus a payroll deduction, not credit card debt
  - 25-year write off (strongly benefits women)
  - Thus equivalent to a graduate tax that stops after a maximum of 25 years, and for most people significantly earlier
- Message 3: keep the scale in context
  - £20,000 credit card debt is scary
  - £20,000 as payroll deduction; cf £1 million in income tax and national insurance over a typical full graduate career
  - Student loans and pensions are both life-cycle redistribution

Broader financial education

- Central distinction between Student Loan (very low interest rate) and credit card debt
- Effects of compound interest on loans
- High interest rates on credit card debt and bank overdrafts; this source of finance should unambiguously be minimised
- Budgeting to stay within loan limits as much as possible
- Other sources
  - Paid work
  - Bank of Mum and Dad
- Don't let things slide – get financial advice early
- FSA Money Doctors project
  - Running for three years
  - Rolled out to 67 universities across the UK
  - http://www.fsa.gov.uk/financial_capability/pdfs/graduating.pdf

4.3 Campaign to improve existing student support

- Fixing the interest subsidy problem releases substantial resources
- Those resources could be used
  - To extend loans to part-time students and postgraduates
  - To increase grants
  - To widen access through intervention earlier in the education system

4.4 Other forms of support

- Mutual support is important (a problem shared is a problem halved)
- Small study groups (but depends on whether grading is on a curve)
- Small mutual support groups

Message for students: Don't panic

- Institutions should help students to de-stress
- At risk of sounding like Pollyanna, a key message is: don't panic
- Upheaval creates many new opportunities
- Degrees provide flexible intellectual training; this is true also of more vocational degrees
- The benefit of a degree is not just money; importantly, benefits include job satisfaction
- Short-run crisis, long-run brain

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