CONTEMPORARY THEMES

Should students receive grants or loans to cover their period of higher education? What are the advantages and disadvantages of either? What is the practice in countries other than Britain? These are some of the questions discussed in the article below by Stuart Maclure, Editor of "Education"

Financing of Students: Grants or Loans?

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When the national accounts are closed for the current financial year it will be found that nearly £50m. has been spent by local education authorities in grants to students at universities. A similar sum will go in grants to students in non-university institutions of higher education. Between now and 1980, the way things are going, the number of students will rise to more than twice the present total of around 300,000 and the cost of student grants will have risen accordingly. And, as the standards of student life reflect rising levels elsewhere in the community, students will somehow have to get their share of rising prosperity. This in turn will be apparent in higher maintenance grants.

All this adds up to a prospect which sends a shiver down the spine of the educational administrator. Any means of breaking a commitment to a system of student grants, the cost of which must inexorably rise faster than the gross national product, must excite a lively interest in the Department of Education. Hence the letter which went out from the Department 18 months ago to the effect that the whole basis of student maintenance was under review, and inviting all and sundry to make comments and proposals. Nothing has come of it as yet. Mr. Anthony Crosland, the Secretary of State for Education, has been careful to do nothing to suggest that he is committed to any particular alternative to the present system. But those close to Mr. Crosland are beginning to search for alternative methods of financing students, of which the most obvious is to replace part of what is now paid as an irrecoverable grant with a subsidized loan.

There are other suggestions which might have the same effect of saving the Exchequer without saddling students with debts. For example, the maintenance system could be remodelled in such a way as to encourage more students to live at home, and this would bring about a real saving, not just a transfer from public to private expenditure. There are many objections to the changes this would entail, and it is clear that no radical change is likely in the near future. Nevertheless, all this highlights the interest which Professor A. R. Prest aroused recently with his paper entitled *Financing Higher Education*, published as Occasional Paper 12 by the Institute of Economic Affairs (price 3s.).

Two Separate Aspects

Professor Prest submitted written evidence to the Robbins Committee in 1963 outlining a scheme for student loans. It is this memorandum which forms the basis of his later pamphlet, with an additional chapter discussing the post-Robbins position. There are two quite separate aspects of his argument. In the first place he is concerned about the dependence of the universities upon central Government finance. "If we are to conceive

of Government grants to universities doubling in real terms in the 1960s, can the U.G.C. [University Grants Committee] hope to continue its tightrope performance and remain an effective buffer between the Government and the universities?" The way he asks the question implies an answer. He sees the basic danger that the Government will be moved to intervene more directly because of its big financial stake. In this context a change of method for student finance is simply incidental to a reform of university finance in general.

In the second place Professor Prest is critical of unconditional grants to students because they involve "a net transfer of income from the rest of the community to those enjoying university education" which makes no allowance for the straightforward financial benefit to the individual recipient. In other words, he is saying that the present maintenance grant system is an expensive annexe, paid for out of public funds, to a system of university finance which is itself dangerously dependent on public funds. By seeking to change from grants to loans, Professor Prest wants to give universities a substantial source of income—fees—not directly dependent on the Exchequer. At the same time he wants students to receive loans instead of grants, because loans can reflect more accurately the material benefit which the individual as well as the State derives from higher education.

Professor Prest's case, therefore, can be divided into two—an argument about sources of university finance and an argument about loans to students.

Personally, I believe that the attempt to link the two issues draws a red herring across the discussion. At present fees—which in any case are mostly paid from public funds—amount only to less than 10% of university expenditure; the percentage goes down every year. In the science and applied science faculties the percentage is probably considerably less. No alteration in the scale of fees could be large enough to make any real difference to the dependence of the universities on the University Grants Committee and the Government. Furthermore, the bigger the fees the more certain that the Department of Education would require the right to approve alteration in the scale of fees charged. I believe that relations between the universities and the Government are bound to get closer. They cannot be made more distant by a piece of financial legerdemain. The Government is involved not only because it pays the money but also because there is common consent that there has to be a national policy for higher education as a whole. The fact that big money is involved means that this will be voted by Parliament and recommended by the Cabinet only if the Government has been implicated in the whole business of policy-making. This would remain true even if somehow the universities found some new source of income.

The possibility of cutting down the cost of student maintenance to public funds, however, is a desirable end in itself if the alternative arrangements which would have to be provided are tolerable. Professor Prest's scheme is described as a system

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of "variable repayable advances." The cost of a student's higher education would be calculated, plus a sum for his living expenses. The Government would decide to what extent this figure should be subsidized—to represent the public benefit—and the rest should be advanced to the student as a loan. But instead of repaying the loan and interest over an agreed period of time the student's liabilities would be expressed in terms of a percentage deduction from his income from the date of "qualification" (however this might be defined) till retiring age of, say, 65.

This has certain advantages over a straightforward repayment scheme. For example, the man who uses his qualification in a low-income occupation—for example, the Church or teaching—would not be saddled with an inordinately high loan charge. The repayments could be said to be linked to the income benefits the student gained by going to a university.

Systems in Other Countries

Before discussing Professor Prest's scheme in more detail, it should be said that when the Robbins Committee¹ surveyed student finance in 10 countries they concluded that only the Soviet Union had a system of student grants as generous as that in Britain. The great majority of students in the other countries were supported by a combination of scholarships and loans and by opportunities for student work. The extent to which loans are important varies widely. In Canada it was estimated that loans accounted for 9% of student income. In Sweden the percentage must have been well over 50%, though 26% of the students got some kind of State scholarship, and probably a similar proportion received grants from private foundations. Since the Robbins information was collected additional State funds have been provided in Sweden.

Students in the United States expect to collect the funds from a variety of sources, including loans. A recent attempt in Congress to allow much bigger allowances for higher education expenses as a charge against income tax has been countered by the U.S. Treasury with a costly scheme for guaranteed loans through the banks. This is a dead letter at the moment because interest rates are too high, but with a higher educational population of three million even a guaranteed loan scheme is a costly operation from the Government's point of view.

New Zealand makes widespread use of "tied grants." Three students out of five get these grants, which are usually dependent upon the student's giving an undertaking to enter a period of Government Service after graduation. Most of these special bursaries are given in the fields of engineering and medicine and in teacher training.

The Netherlands was one country where the Robbins Committee found a scheme for interest-free loans repaid by a percentage of future income. Many of the countries surveyed subsidized student living conditions—housing, restaurants, travel, and so on. The Russians used their system of grants to reward good work and punish failure more directly than in Britain.

The first conclusion to be gained from the description in the Robbins report of the arrangements of most of the countries apart from the Soviet Union and Britain was the diversity of sources which students had to draw upon—trusts, foundations, State scholarships, loans, earnings. The second conclusion is that the supply of candidates for the universities does not seem to depend on the extent to which maintenance grants are available. There seems to be no correlation, as the British always tend to suppose, between the opportunity for higher education

and the availability of student grants. It isn't even at all clear that more working-class students are found in universities where there are munificent grants to students. All this suggests that there should be nothing sacred about our present system, but it doesn't necessarily remove the major disadvantages entailed in a shift from a grants system to a loans system, once the grants system has been in operation for any length of time.

Technical Difficulties

Professor Prest discusses various technical difficulties to be overcome. I don't think he overcomes them at all satisfactorily. What about the effect of a loan scheme on the education of girls? Every girl who received a loan and took a degree would present her future husband with an anti-dowry of several thousand pounds. Of obvious topical significance would be the effect of a loan scheme on would-be emigrants. If a loan scheme became a method by which Mr. Kenneth Robinson could effectively prevent doctors from voting against their salary settlements with their feet—and not doctors only—this would be a thoroughly undesirable development. Presumably the people with the biggest obligation might be found working in universities. Anything which prevents free trade in scholars, brain drain or no, is the ultimate assault on academic freedom. Moreover, it can be asked if a variable repayment scheme is not too remote to carry with it any real sense of the payment of a debt. To go on paying a few extra per cent. of your income to the Government each year because you went to a university would become just another tax. Nobody actively would advocate a tax on brains, but what else would this be?

There is a further practical consideration to bear in mind. A high proportion of the products of university education are employed by the Government, the local authorities, the nationalized industries, or are in some kind of public service. It is naive to suppose that if a change is made which deducts 3 or 4% a year from the income of, say, a graduate teacher, his professional association will not press hard to recover this in salary negotiation. There is an exactly comparable case in the history of teachers' salaries. A few years ago the teachers' annual superannuation contribution was raised from 5 to 6%. The Minister of Education, Sir David Eccles, as he then was, faced the indignation of the teaching profession by telling them to go to the Burnham Committee and seek to recover the extra 1% in a salary claim. It is of course anybody's guess what would happen if there were a switch from grants to loans, but mine would be that the chain reaction would actually cost more than was saved.

But what is at issue is not all or nothing at all. At present the grant to a student is made on the assumption that the parent contributes his share according to an income scale. It is not infrequently found that parents fail to pay up the sum they are expected to pay. When this happens the student has less than he should have—sometimes much less. The obvious place to introduce loans would be as an alternative to the parental contribution. Students and their parents could have the choice which to take. There are some students who gird against any kind of family restraint and who would prefer to receive a loan than to be beholden to their parents. Once loans had become part of the pattern then clearly it would be a relatively simple matter over a period of years to adjust the balance between grants and loans.

I doubt if there is an opportunity to save much of the £200–£300m. which student maintenance will be costing a dozen years from now. But Professor Prest has done a public service in airing this matter once again. What would be most serious of all would be if the expansion of higher education was held back by a dogmatic attachment to a particular system of student finance.

¹ Robbins Report—*Higher Education Appendix Five*. The countries concerned were: Australia, Canada, France, Western Germany, the Netherlands, New Zealand, Sweden, Switzerland, the United States, and the U.S.S.R.