

Andrew Oswald, Professor of Economics, Warwick University

No, We Should Not Worry about Student Debt

It is time for students to pay up. Our universities are going bankrupt. If we are serious about the quality of higher education, and about improving participation rates from the poorest households, British universities must be allowed to charge 7,000 pounds a year for their courses. That figure will have to rise to more than 10,000 a year by the end of this decade.

This would be fair and efficient. It is also inevitable in my lifetime – unless I am unlucky with my longevity and get done in by a fees protestor – both because we are now massively out-gunned by the American powerhouses and because future taxpayers will increasingly want their cash put into roads and hospitals. And no, we should not worry about student debt. There must be scholarships for the hard-up.

There is now a profound need for Britain's students to pay their own bills in life. Yet when I say this, my email box suffers. It clogs.

Penniless of Physics. Hard-up of History. Broke of Biology. All write me impassioned electronic notes. They ask: was I born bad (no) or simply corrupted by my training in economics (no) or is it because of my private school background (went to a comprehensive) or don't I understand how unpleasant fees would be for my correspondent (I think so)?

I usually send a reply asking why they believe that taxpayers with low levels of education should fund them to go to university, whereupon the correspondence generally founders, or deteriorates into emotion. This debate upsets people.

But one famous line of argument against my side of the case certainly deserves to be confronted. This is the claim, propounded by the

National Union of Students, that the typical student ends university with worrying debt of 10,000 pounds. I have not seen real evidence for this figure. Nevertheless, say it is true. Should we be concerned about student debt?

Four responses come to mind, and I fear they will not please the critics. No, not really, no and no.

Let's take them one at a time.

No, number 1. The argument that we should be sorry for students with debt faces a stark problem. Students drink and party their way through thousands and thousands of pounds a year. This is known to every British university teacher. It is particularly clear from the Student Income and Expenditure Survey run by the Department of Education and Skills. You can look up the data yourself in Social Trends, a fascinating booklet from the Office of National Statistics.

Here is one remarkable fact. One third of student expenditure in a year is on "entertainment". This figure is only a little less, according to the government statisticians who tabulated the survey numbers, than students' entire spending on accommodation, food and household bills.

A typical student's whole spend is 5400 pounds per annum. Of this, he or she blows 1800 pounds a year on going out, drinking, and having fun. That is fine by me; we live in a free society; even economics professors went partying once. Nevertheless, such big expenditure by British undergraduates on enjoyment means that pained claims about debt do not have a compelling ring. In total, according to the survey data, 2700 pounds a year of student spending is on inessential items. Over three years, that makes 8100 pounds. To avoid a large debt, therefore, our students merely have to give up things they do not need.

Not really, number 2. If students from low-income homes are put off going to university by the prospect of debt, then that would worry me a lot. Yet I know nobody on the side of high university fees who wishes to ignore this hazard. All those in my corner of the ring want

to see scholarship funds for the poor (something that does not get mentioned by speakers at anti-fees rallies in Trafalgar Square).

Scholarships work. They should be paid for by alumni donations and by using money contributed in high fees by those students who are from well-off homes. That is a key attraction of high fees on most students. An alternative approach is to bring back maintenance grants for youngsters from low-income backgrounds. I could live with either. In any case, we should be concerned about debt among the really poor, but not among the numerous rest.

No, number 3. Investing in your future is rational. Young people routinely take out a mortgage on a house, for instance. They borrow a hundred thousand pounds to do so, which is a much larger debt than they would have to find to pay 7000 a year to go to university.

Investing in a mortar board is like investing in mortar: it makes financial sense. Plenty of my students, when one meets them years after graduation, have even happily and profitably borrowed to do an expensive Masters in Business Administration degree.

No, number 4. Young men and women are meant to be in debt. Ask any economist about the so-called life-cycle model of rational consumer behaviour. Sensible folk borrow early in life and then pay back the cash in later years when their incomes become high. This is completely logical.

Debt pays off – in both senses.

In 2002, our university sector has fundamental problems. It is essential that students be asked to pay more. If Britain is serious about quality and its avowed aim of getting 50% of young people into higher education, we simply must change the way in which universities are funded.