intergenerational foundation
Fairness for Future Generations

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Higher student loans push up national debt and are an intergenerational liability

Under the guise of reducing the deficit, the coalition's higher education reforms will actually increase the national debt by £50 to £100billion over the next 20 years, lift CPI by 0.6 percentage points in the next 2 years, and potentially add £2.2billion to the social security budget by 2016, according to new research from the Intergenerational Foundation (www.if.org.uk) launched today.

Dr Andrew McGettigan's report, entitled *False Accounting? Why the government's higher education reforms don't add up*, assesses the liabilities that the higher education funding reforms would deliver to future tax payers, and blows the lid off what he dubs the coalition's austerity narrative.

McGettigan demonstrates that the claimed saving to expenditure of £1billion annually is unreliable. Accounting convention used by the government allows it to present the long-run losses on student loans as estimates, which may have been presented too low.

Higher tuition fees will require higher student loans. In turn, financing these loans requires higher government borrowing: increasing the debt by £50-100 billion over the next 20 years. At which point, graduate repayments are estimated to match annual loan outlay finally.

Astonishingly, no one within government has appeared to realise that tuition fees are included in the basket of goods used to determine the Consumer Price Index (but not Retail Price Index). Higher tuition fees will have an inflationary impact, increasing CPI by 0.2 percentage points in the final quarter of 2012/13. The following two years will see a similar impact leading to an overall increase of around 0.6 percentage points.

State pensions, tax credits and some other benefits paid by the Department of Work and Pensions (DWP) are index-linked to CPI too, which is used to calculate their annual increase. The impact of higher tuition fees could add £2.2billion to the social security budget by 2016 at a time when the Chancellor has just announced that he wants to see cuts worth £10billion from it.

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There would therefore be no overall deficit saving from the new Higher Education funding regime. BIS may save approximately £1billion per year, but DWP loses £2billion, leading to an overall increase to expenditure of £1billion.

Government also estimates that student loan repayments will not return monies lent swiftly. The Office of Budget Responsibility (OBR) itself estimates that 32% of the net present value of loans may have to be written off, leaving future governments and taxpayers to resolve any shortfall between the estimates used and the actual repayments that materialise.

It's conceivable that in order to manage down the resulting debt, future governments could change the terms and conditions on student loans to extract higher repayments from graduates. While future cohorts will face loans offered on much less generous terms, those who have already taken out loans will find that they have no guarantees and statutory protection: the 2012/13 loan agreement contains the following clause:

"You must agree to repay your loan in line with the regulations that apply at the time the repayments are due and as they are amended. The regulations may be replaced by later regulations."

To add insult to injury, government is putting commercial interests over democratic accountability by failing to disclose its plans to sell the student loan book following private advice from Rothschild. Under the terms of the 2008 Sale of Student Loans Act, loans can be sold to third parties without consultation or the consent of borrowers.

McGettigan comments, "It cannot be made any clearer – higher education reforms are a shambles. Vague savings, more instability, a debt bubble, increasing inflation, increasing benefits for the wrong generation, all point to incompetence at best, alternatives motives at worst. The Coalition must come clean and respond publicly to IF's findings."

Liam Burns, NUS President, adds, "By switching university funding from spending to lending Ministers hoped to perform a sleight of hand that would protect teaching but reduce the deficit but this transparent accounting trick has created a crisis of instability in universities. There is a compelling case against policy decisions that at best look ill-scrutinised and rushed and at worst negligent and reckless."

Angus Hanton, IF Co-founder, comments, "Despite what has been promised, there is likely to be no saving to public-sector finances. Current students will become increasingly indebted with decreasing protection and older generations will benefit from an inflationary and unexpected benefit windfall from younger and future generations."

IF calls for:

- Immediate restoration of block grants for undergraduate teaching
- Government to "come clean" on claimed savings and make a statement
- Responsible accounting for potential losses on loans (allowing for 40% rather than the claimed 32%)
- No sale of student loan book without Parliamentary oversight and approval
- Improved statutory and contractual protection for borrowers

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Note to Editors:

1. Britain's net debt passed the £1 trillion mark in March 2012 (66% of GDP)
2. Student loan debt will only be paid down when annual repayments match and exceed the annual outlay. According to the OBR, this will be sometime around 2032; according to the Department for Business, Innovation and Skills (BIS), this will be after 2040.
3. The CPI distortion is intergenerational as a significant proportion of the higher spending is on the older generation through an uplift to pensions. Around £90billion each year is spent on state and public service pensions. The annual increase in that spending resulting from higher tuition fees would be equivalent to roughly £0.5billion annually representing a large transfer from young to old.
4. Source for loan agreement: http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@educ/documents/digitalasset/dg_200469.pdf
5. The Intergenerational Foundation (www.if.org.uk) is a vehemently independent, non-party-political think tank that researches intergenerational fairness on behalf of younger and future generations.

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