

## **The cost of expanding higher education is – zero**

The Government's recent 35 year index linked bonds were sold at an interest rate just below inflation. In contrast, government assumes internally that it costs 2.2% above inflation to borrow money.

This matters when we calculate likely student loan losses. The yield on long term index linked bonds is the right measure to use to assess student loans, as the repayments are long term, and relate to inflation plus an interest premium. The BIS ready reckoner assesses the losses with a 2.2% real interest rate at £7,300 per student. This changes to a profit of £900 per student with an interest rate of 0%. With a 0% real cost of capital to government, the 0-3% real interest rate paid by affluent graduates means that successful graduates (deciles 5-10) overpay by enough to offset the losses from low earning students whose debts are forgiven. The government therefore makes a profit on the average loan.

Of course, graduate earnings could change, for better or for worse. The additional students may be better or worse than those underlying the BIS data. But as well as SLC repayments, government also gains from more graduates in that as higher earners pay more in taxes and claim less in benefits. The likely overall result is a significant gain to government.

Now is therefore the perfect time to increase student numbers. Demand for places is high - partly because of the recession. The sensible strategy would be to announce additional places conditional on increased competition - say, by reducing the competitive threshold to BBC. This would allow you to deliver a more responsive university system without creating obvious losers.

We have people who want to go to university, and a system that means they will pay the entire cost of doing so. Allowing them to do so will cut unemployment in the short run, deliver a more competitive university sector, and increase skills, social mobility and growth in the medium run. Why would government stand in the way of this happening?

Dr Tim Leunig and Professor Neil Shephard

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