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ABSTRACT

This report provides a summary of a forum held in Paris at the International Institute for Educational Planning (IIEP) in September 1989. The purpose of the forum was to examine recent changes in industrialized countries in systems of financial support for students in higher education, and in particular to review experiences with student loans as a means of providing financial support. Following an introductory chapter, the report discusses: (1) the reasons for recent changes in student support systems in industrialized countries; (2) the effects of loans on access and participation in higher education; (3) the burden of debt caused by student loans; (4) the effects of demographic and labor market changes; and (5) the implications for developing countries. Annexes include summaries of student support systems from Denmark, the Federal Republic of Germany, Netherlands, Sweden, the United Kingdom, and the United States, and a compilation of financial support for students participating in the European Community Action Scheme for the Mobility of University Students (ERASMUS) program of the European Economic Community. Contains 10 references. (GLR)

IIEP Dissemination Programme

Educational Forum Series

No. 1

Student loans in higher education

1. Western Europe and the USA

A report by Maureen Woodhall

International Institute for Educational Planning

IIEP Dissemination Programme

Educational Forum Series, No. 1

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Report of an IIEP educational forum

by Maureen Woodhall

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International Institute for Educational Planning

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Preface

This booklet is the first of a series which will report on *Educational Forums* being organized by the IIEP on the issue of student loans in higher education. We begin here by examining the situation in Europe and the USA. Later in 1990 a similar forum will look at student loans in Asian countries; forums devoted to other regions of the world will follow.

The purpose of these meetings is to analyze the main issues raised by the introduction of student loans and discuss the ways these issues are being addressed both in industrialized and developing countries. Through open and candid discussion at the forums, and exchanges of experiences between countries, it is hoped to highlight the main implications for policy-making in higher education and draw some conclusions concerning the management of student loans in the future.

Each booklet in the series will normally include a report of the forum and summaries of the experiences of the countries represented. A separate video cassette will also be available, presenting the main points raised during the discussions and the conclusions reached.

The IIEP, in embarking on this new initiative, hopes that the series will stimulate further co-operation in the form of exchanges of experiences among Unesco Member States.

Jacques Hallak
Director, IIEP

Executive summary

The International Institute for Educational Planning (IIEP) held a one-day forum in September 1989 to examine recent experience with student loans in the USA and Europe (Denmark, Federal Republic of Germany, Netherlands, Sweden and the United Kingdom) and to discuss the relevance of this experience for developing countries.

The forum was concerned with five main issues:

1. Reasons for recent changes in student support systems in industrialized countries

Several countries are introducing changes in student support in the 1990s because of:

- concern about increasing costs of existing systems of student aid;
- change from highly selective systems of higher education to "mass" higher education requires new forms of support;
- desire to *expand* higher education participation without imposing excessive burden on public funds;
- concern about *fairness* of existing systems.

2. The effects of loans on access and participation in higher education

Participation in higher education has increased in the 1970s and 1980s, but there is concern in several countries (e.g. the Federal Republic of Germany, Sweden) that too much reliance on loans will discourage low-income students. There is now a consensus in several countries that a *mix* of grant/scholarship and loan will encourage participation in higher education and several countries are moving towards a mix of 50 per cent grant 50 per cent loan, although some countries still favour greater reliance on loans.

3. The burden of debt caused by student loans

There is widespread agreement that loans should not impose excessive burdens of debt. There is no agreement about what represents a "reasonable" level of debt, but Sweden and the Federal Republic of Germany have recently increased grants to avoid excessive debt burdens. Evidence in the USA suggests that most students do not believe that current debt levels are too high, but there must be special provisions for those with very low incomes, or the unemployed. Most loan schemes allow for postponement of repayment if graduates' incomes are very low, and with this provision loan burdens at present do not seem excessive -- graduates usually pay about 4 per cent/5 per cent of earnings to repay loans.

4. The effects of demographic and labour market changes

Falling birth rates in many countries mean a decline in the higher education age group. However, higher education enrolments are still increasing because of the increased proportion of school-leavers with qualifications for entry to higher education, the increase in participation by mature students, and increased student mobility due to development of study abroad/exchange programmes. Student aid policies must take account of these demographic changes, but changes in the labour market are even more important. Students' career choices are more influenced by wages/salaries, job opportunities and labour market conditions than by student aid. There is no evidence that student loans distort career choice.

5. Implications for developing countries

Experience in industrialized countries shows that student loans do work, but that a *mix* of grants and loans seems desirable. Conditions in industrialized and in developing countries are very different: in particular labour market conditions and the capacity of banks and other financial institutions to organize loans and ensure repayment. Nevertheless, the need to find an appropriate balance between public and private finance for higher education is very urgent in developing countries, so that high priority should be given to exploring the feasibility of loans in developing countries.

Student loans in higher education
1. Western Europe and the USA

Report of an IIEP educational forum

by Maureen Woodhall

I. Introduction

This report provides a summary of a one-day forum held in Paris at the International Institute for Educational Planning (IIEP) in September 1989.

The purpose of the forum was to examine recent changes in industrialized countries in systems of financial support for students in higher education, and in particular to review experience with student loans as a means of providing financial support.

Loans are now widely used as a form of student support in Europe and in North America either to help students pay tuition fees (as in the USA) or to help cover the costs of student maintenance, (as in Sweden and the Federal Republic of Germany). The United Kingdom, which has previously had no student loan programme, is to introduce loans for the first time in 1990. Yet there is still a fierce debate both in the United Kingdom and in other countries about the advantages and disadvantages of loans. The forum was intended as an opportunity for participants to share recent experience with student loans, and research and analysis on the effectiveness of different forms of student support, at a time when many countries have announced, or are considering fairly fundamental changes in financial support for students in higher education. The forum included participants from: Denmark, Federal Republic of Germany, France, Netherlands, Sweden, United Kingdom, USA, and the Commission of the European Communities. *Annex C* gives a full list of participants at the forum.

Student loans are not only widely used in industrialized countries, they are also provided in a number of developing countries, and have been advocated by various bodies as a way of financing higher education in developing countries at a time of increasing financial pressure on public budgets. The main concern of the IIEP is educational planning in developing countries, which it promotes through a programme of training, research and dissemination of information. This forum fell under the latter category of dissemination of information. Although the main focus of the forum was on experience in industrialized countries, it was also concerned with the relevance of this experience for developing countries. Educational planners and policy-makers in several developing countries are currently interested in the question of whether student loans are feasible and could help to overcome the severe financial constraints facing higher education. The forum briefly touched upon the implications for developing countries of the experience of industrialized countries, and recommended this as an area for future study.

The forum was concerned with four main issues:

1. Reasons for recent changes in student support systems in industrialized countries

Many industrialized countries established systems of student financial aid in the 1960s, including Sweden, which set up a system of study means (studiemedel) in 1964, the United Kingdom which introduced *mandatory grants* in 1962, and the USA which established *Educational Opportunity Grants and Guaranteed Student Loans* in 1965, after introducing a small-scale *National Defense Student Loan Program* in 1958. In the 1970s, a number of countries introduced or proposed major changes in student support, including the introduction of student loans in the United Kingdom, the restoration of a combined system of grants and loans in the Federal Republic of Germany, and significant changes in the Netherlands and Sweden. The first part of the forum was concerned with the question of why so many countries are introducing changes in student support at the present time, and why there is so much renewed interest in student loans.

2. The effects of student loans on access and participation in higher education

The 1970s and 1980s saw an increase in participation in higher education in many countries, but in some cases this was followed by a slackening in the rate of expansion, while other countries are currently concerned to increase participation in the 1990s. The effect of student loans on participation is a controversial issue, with advocates of loans arguing that they can help encourage wider participation in higher education, while critics argue that loans will discourage students from low-income families, women and ethnic minorities. Experience with loans and their effects on access and participation was, therefore, a crucial issue for discussion.

3. The burden of debt caused by student loans

Opponents of the introduction of loans in the United Kingdom have argued that students and graduates will be faced with unacceptable burdents of debt. Yet there is little reliable information about actual burdens of debt in countries with established loan schemes. Participants were asked to provide information about actual debt levels, and what is considered an acceptable level of debt for students in their countries.

4. The effects of demographic and labour market changes

Falling birth rates in many countries mean a decline in the age group that traditionally forms the bulk of new entrants to higher education and the labour market. At the same time, there have been other important changes, including an increase in the number of mature students in several countries, and a growth in demand for high level manpower due to economic and technological development. The forum considered the implications of these changes for student support, particularly student loans, and also looked at another important development, the increase in student mobility and its implications, and particularly the ERASMUS programme, which aims to increase student mobility in the European Community.

Finally, the forum discussed a fifth topic:

5. Implications for developing countries

Due to increasing financial constraints a number of developing countries have shown interest in student loans as a means of financing higher education, and the World Bank and other agencies have in some cases advocated loans as a form of student support, on the grounds that loans are both more efficient and more equitable than a system of free tuition, coupled with grants for student maintenance. Yet critics are sceptical about the feasibility of loans in developing countries. The forum closed with a brief discussion of the implications for developing countries based on the experience of Europe and the USA.

* * *

The present document consists of the following:

Summary of the forum discussions

The discussions at the forum were lively, informative and informal. *Section I* provides a brief summary of the views of participants on the four main items of the agenda, and the implications for developing countries.

Background orientation paper

All participants were given, in advance, a background paper which summarizes recent changes in student support in industrialized countries, provides information about the British Government's proposals to introduce student loans in the United Kingdom in 1990, and identifies a number of issues that are important in evaluating alternative student support systems, and particularly student loans. These issues formed the main agenda for the forum.

Annexes

Annex A: *Summaries of student support systems in Denmark, the Federal Republic of Germany, Sweden, Netherlands, United Kingdom and the USA.* Participants provided brief summaries of student support systems in their countries, with particular reference to loans. These summaries will be found in *Annex A*.

Annex B: *Provision of financial support for students participating in the 'European Community Action Scheme for the Mobility of University Students' (ERASMUS) programme of the European Economic Community (EEC).*

Annex C: *List of participants in the forum*

In addition to this report of the forum, a video cassette is available from the IIEP which summarizes the main conclusions of the forum and shows extracts from the discussions. Please contact the Institute's Publications Unit for further details.

II. Summary of the forum discussions

1. Reasons for recent changes in student support systems in industrialized countries

The main reasons identified by participants for the recent changes in student support in their countries were:

- concern about the increasing costs of existing systems of student financial aid;
- the change from highly selective systems of higher education to systems which cater for larger numbers, and the desire to expand access in the future, mean that new systems of student support are needed, and existing systems are no longer judged to be adequate;
- governments are seeking ways to expand participation in higher education without imposing excessive burdens on tax payers and on public expenditure;
- there is concern about the fairness of existing systems, and recognition that too much reliance on loans may lead to excessive debt burdens and may be a disincentive for students from low-income families.

The development of student aid programmes can be summarized in terms of three periods: the establishment of student support schemes in the 1960s, their development in the 1970s and early 1980s and the recent changes introduced or announced in the late 1980s.

In the United States, the very first student loan programme was enacted in 1958, and in 1964 there was very considerable expansion of student aid for students in all forms of higher education. In the United Kingdom, a committee set up by the Government to review the arrangements for financial support for students reported in 1960 and a system of mandatory awards, consisting of means-tested grants for students to cover living expenses and the costs of tuition, was introduced in 1962. In Sweden, a system of "study means" (studiemedel), which provided a combination of grants and loans, was set up in 1965 and several other countries established a combination of grant and loan programmes in the early 1960s, so there was considerable development of student aid programmes at that time. The objectives were similar in many countries: to help encourage the expansion of higher education to meet economic needs, particularly the need for highly-qualified manpower, and to encourage equality of opportunity and to provide an equitable system of sharing the costs of higher education.

The second major period of change has been the last few years, in the late 1980s. That does not mean that nothing happened between the early 1960s and the late 1980s. A number of countries made fairly significant changes during the 1970s, but it is remarkable how many countries, at about the same time, began to review their systems of student support and to introduce or to propose fairly fundamental changes. Important changes have been or will be introduced in many countries in 1989 or 1990. There were four developments at about the same time in 1988. In the United Kingdom, the Government produced proposals in a White Paper to introduce "top-up loans" for students to supplement maintenance grants. There was previously no official system of student loans in the United Kingdom and there has been long debate, for more than twenty years, about whether students should receive grants or loans or a combination of grants and loans. The Government has now proposed to introduce loans to "top up", or supplement grants from 1990 and it is intended to increase loans as a proportion of student support until they represent 50 per cent of all financial aid to students. The Government in Sweden also announced major changes in their loan system, which were introduced in January 1989. In Australia, a Government Committee recommended the introduction of a *Higher Education Contribution* to be collected through the tax system and although the Government itself does not use the term, it is widely regarded as a form of graduate tax. The new Higher Education

Contribution was introduced in 1989. Finally, in Germany, a Committee reviewed the system of support set up under the *Federal Educational Assistance Act (Bundesausbildungsförderungsgesetz, known as BAFöG)*, and recommended changes to the system which will be introduced in 1990.

In the United States, the present legislation governing student aid is due for re-authorization in 1991, and so a fairly intensive debate is likely, over the next two years, on the pattern of student support in the USA. Other countries have also introduced fairly major changes including Denmark and the Netherlands. There are a number of reasons why several countries have recently introduced changes.

First, many countries are concerned about the growing cost of financial support. At a time when higher education has been expanding, the cost to public funds of providing grants or subsidies for loans has increased sharply, and the figures for the United Kingdom illustrate the problem. When the *Anderson Committee* recommended setting up grants in 1960, there were 120,000 students eligible for financial support. In 1987-88, the number had grown to 400,000 and the costs (in constant prices, to allow for inflation) had grown from £250 million in 1962 to £830 million in 1987. The Government argued that a system which was designed for a fairly small higher education system was no longer able to cope with expanding numbers and since it is government policy to encourage further expansion of higher education, some fundamental changes in student support were proposed, with the introduction of loans.

Secondly, the question of equality of opportunity has been re-assessed, in the light of increasing evidence in many countries that student support by itself was not enough to ensure equality of opportunity. Critics of existing systems argued that far from being equitable, a system of student grants simply transferred income from tax-payers with average or below-average incomes to those who will enjoy much higher than average incomes later in life as a result of higher educaiton. This has led to questioning about how the costs of higher education should be shared and this was a major factor in Australia, where the Committee recommending the introduction of the Higher

Education Contribution argued that students themselves should contribute more towards the costs of what would be a very profitable financial investment.

The third main reason for change is that there has become growing evidence that existing systems were not always working satisfactorily. In Sweden and Denmark, there has been increasing concern about the size of debt and it was felt that too much reliance on loans was leading to excessive burdens of debt for students. In the United Kingdom, the system of means-tested grants, which assumes that parents will make a financial contribution, does not always work satisfactorily, and there is evidence that many students did not, in the past, receive the assumed parental contribution, so that although there was no official loan scheme, students were often forced to take out bank overdrafts, which represented an unofficial loan scheme. The British Government wants to expand the higher education system, but without imposing excessive burdens on the tax-payer. The participation rate has gone up from under 8 per cent of the school-leavers at the time the grant system was introduced in the early 1960s to 14 per cent in 1985 and the Government plans to increase this 20 per cent by the end of the Century. The White Paper on student loans pointed out that countries which relied on a mixture of loans and grants were able to support a much higher proportion of young people in higher education than the United Kingdom, which currently has a very generous system of financial support, but for a very small proportion of the population.

The British Government therefore proposed the introduction of "top-up loans" for students, on the grounds that these would:

- share the cost of student maintenance more equitably between students themselves, their parents and the taxpayer,
- increase the resources available to students,
- reduce, over time, direct public expenditure on grants,
- increase economic awareness among students, and their self-reliance.

In the Federal Republic of Germany, on the other hand, the Committee that reviewed student support in 1988 recommended the re-introduction of a combined grant and loan, to replace the all-loan programme that was established in 1984. One reason for this proposal was that the system of interest-free loans, set up in 1984, in fact provided a very substantial "hidden subsidy", and it was felt that it would be more effective to make this an explicit subsidy, in the form of a grant. It was also felt to be fairer to provide student support in the form of a combined grant and loan, since there was a belief that an all-loan system had discouraged some low-income students from entering or completing higher education, even though a survey showed that only 3.5 per cent of school-leavers who were qualified for higher education reported that they were unwilling to apply for entry to higher education because of the introduction of an all-loan programme in 1984. Nevertheless, there was a strong feeling in the Federal Republic of Germany that a combined grant and loan was a fairer system than one that provided only loans, and that social justice would be better served by a system of student support based on 50 per cent grant and 50 per cent loan.

In Sweden and the Netherlands, there have also been recent changes in the balance between grants and loans, but both countries have maintained a combination of grant and loan, in the belief that this will allow an increase in participation in higher education, without imposing excessive burdens on public expenditure.

There are differences between countries in the administration of the loan programmes. Both in the USA and in the Netherlands, commercial banks provide student loans. This was proposed, also in the United Kingdom, but the banks proved unwilling to participate in the new loan programme, so the government has set up a special agency, the *Student Loan Company*. Sweden also has a specialized agency, the *National Board of Student Aid*, which administers loans and grants for students.

2. The effects of student loans on access and participation in higher education

Critics of loans argue that they may discourage student from entering higher education, on the grounds that those from low-income families will wish to avoid a heavy burden of debt, women will fear that if they marry, a student loan will represent a "negative dowry", and students will be unwilling to choose long courses, such as medicine because of the high costs, and unwilling to enter low-paid occupations because of the need to repay their loans. On the other hand, participation in education grew in many countries in the 1970s and 1980s and there is evidence in the USA that far from discouraging women and low-income students, many who would not otherwise have been able to meet the costs of tuiton and living expenses were able to finance their higher education through loans.

There is concern, however, in several countries, particularly Sweden and the Federal Republic of Germany, that too much reliance on loans may have caused a slight decline in participation among students from low-income families. By 1988 loans represented about 94 per cent of total student support in Sweden and 100 per cent in the Federal Republic of Germany, and the changes introduced or announced in 1989 will mean that grants will in future provide 30 per cent of the total student aid in Sweden and 50 per cent in the Federal Republic of Germany. In the USA, also, loans now constitute about half of all financial aid for students, and the new British system of loans will eventually provide half the total support available to students.

Thus, a consensus seems to be emerging in several countries that a balance of half loans, half grants, may provide more effective encouragement and a greater stimulus to participation in higher education than a system that relies entirely on either grants or loans.

There was general agreement in the discussions that financial aid is only one factor influencing participation in higher education. Labour market trends are also very important, and the slight reductions in participation by low-income students that occured in Sweden and the

Federal Republic of Germany during the 1980s partly reflected declining job opportunities and earnings for graduates, and were not due entirely to the declining value of student support.

3. The burden of debt caused by student loans

There is widespread agreement that loans should not impose excessive burdens of debt, since this will lead to problems of default, and may even have an impact on graduates' willingness or capacity to undertake further borrowing, for example to finance the purchase of houses or cars. In Sweden, the increase in the proportion of student aid given as a grant, from just over 5 per cent in 1988 to 30 per cent in 1989, was partly due to a fear that graduates were facing excessive debt burdens, and this fear has also been expressed in the USA, and by critics of loans in the United Kingdom.

It became clear, however in the discussions, that there is no general agreement on what constitutes an "acceptable" level of debt, although it will obviously be influenced by the pattern of graduate earnings. In Sweden student loans are regarded as an important means to allow students to invest in their future, and both government and student organisations are concerned that students should not face unrealistic debt burdens. The new system, introduced in 1989, means that graduates are expected to pay back 4 per cent of their income each year until they have repaid their loan. On the basis of certain assumptions about graduate salaries and inflation, a graduate might be expected to repay the loan in full in 20 years, but if he or she enters a low-paid job, it may not be possible to repay the loan in 20 years. This would mean that the current balance of 30 per cent grant and 70 per cent loan could, in some cases, lead to excessive debts, and the *National Board of Student Aid* has therefore advocated a system of 50 per cent grant and 50 per cent loan as more likely to result in *"acceptable and reasonable debt burdens"*.

In the Federal Republic of Germany, also, the Federal Government now intends to reintroduce grants, so that student support will, in the future, be provided in the form of half grant and half loan. This change was also proposed on the grounds that it would reduce the burden of debt.

In the USA, where graduate salaries tend to be higher, on average, than in Sweden, repayments of more than 4 per cent of a graduate's income are judged to be quite reasonable, and some analysts regard repayments of 10 per cent of a graduate's income as perfectly "acceptable and reasonable". Recent research on debt levels in the USA, suggests that the majority of students and graduates do not regard current debt levels as excessive, and those with the highest levels of debt, such as doctors and lawyers, can usually look forward to the highest average earnings. Nevertheless, rising levels of student debt are causing concern in the USA, and in some other countries, and there was general agreement in the discussions that special provisions will be needed for graduates with low incomes, and for the unemployed, in order to prevent default.

4. The effects of demographic and labour market changes

The question of what is a reasonable level of debt, and what proportion of graduate earnings should be required for loan repayments is partly dependent on conditions in the labour market for graduates. There is evidence in several countries that students' career choices are more influenced by relative wages and salaries and by job opportunities and general labour market conditions than by student financial aid. There is no evidence that student loans distort career choices, although critics of loans often express this fear.

While the labour market is one important factor determining what is regarded as a reasonable level of debt for students or graduates, this decision will also be influenced by the level of parental support that is expected and provided. There are considerable differences between countries, for example in West Germany parents are expected and indeed are legally required to contribute to the costs of their children's maintenance, unless they have very low incomes, and in the USA parents are expected to contribute to the costs of both tuition and maintenance, if they can afford to do so. In Sweden, on the other hand, all students are regarded as financially independent, and levels of student support are based on students' own income, rather than that of their parents.

Demographic changes, such as the increase in the number of one-parent families in the USA, and the increase in the number of mature students in several countries, have implications for student aid policy. Other demographic changes, such as the decline in the size of the 18-20 age-group, that has traditionally supplied the majority of new entrants to higher education, are also important. Nevertheless, in many countries, participation in higher education is continuing to rise, despite the falling birth rates, because of an increased proportion of school-leavers with qualifications for entry to higher education, as well as an increase in the number of mature students. Demand for financial aid is therefore likely to be maintained, or to increase, despite falling birth rates in many countries.

Another important factor with implications for student aid policy is the growth of student mobility, particularly in Europe, with the development of the *ERASMUS* programme, which is intended to promote and increase mobility of university students in the European Community. The aim is to reach 10 per cent mobility which means that at any one time 10 per cent of university students will be studying outside their own country, in another Member State of the *EEC*. This would mean 150,000 to 160,000 students each year spending part of their university career in another EEC country. In 1988-89, there were about 13,000 students receiving financial support under *ERASMUS* to study in another European country, and in 1989-90 this is expected to rise to 25,000.

The *ERASMUS* programme provides financial support in the form of grants which are intended to "top-up" the grants or loans provided by the students' own governments to help finance their living expenses, and it is a requirement of the *ERASMUS* programme that students should not be charged tuition fees. In the future, the growth of student mobility in Europe will be very much influenced by the level of student support in Member States. At present, financial aid is more generous in Denmark, the Netherlands, West Germany and the United Kingdom, than in France, Spain or Portugal, for example, which is likely to have a significant impact on the flows of students between these countries.

5. Implications for developing countries

Experience in industrialized countries shows that student loans can and do work, but a combined system of grants and loans is regarded as the most effective and equitable method of providing student support in most of the countries respresented at this forum. What are the implications of this experience for developing countries? The effects of economic crisis, which have led to a decline in public resources in most developing countries, and particularly a decline in education budgets, mean that several developing countries have begun to explore the idea of student loans. Loans, or *educational credit*, as they are often called, are already widely used in Latin America, but in recent years, there has been interest in student loans in both Asia and Africa. In Africa, the problem of student financial aid is particularly serious, since grants, scholarships, bursaries or living allowances represent a very heavy burden on public expenditure in many countries.

There is, however, a bitter controversy between those who argue that the introduction of student loans in developing countries would improve efficiency and equity in higher education and those who believe that they are not politically viable or practically feasible.

The situation in developing countries is certainly quite different from that in the industrialized countries represented at this forum. Not only are labour market conditions different, for example there is often a problem of graduate unemployment, there is also much more limited capacity, on the part of banks and other financial institutions, to organize a loan scheme and collect repayments. All of these problems may make it more difficult to introduce and administer a loan programme in a developing country, than in Europe or North America. In addition, there is formidable political resistance to be overcome.

On the other hand, the problems of financial constraints are so severe, that the question of how to reduce the burden on public resources of subsidies for higher education is becoming urgent. For example, in some African countries, student fellowships and living allowances take up to 25 or even 30 per cent of total public expenditure on education, and are four or five times the level of GNP per capita. Thus over-generous subsidies are provided for those in higher education, while a large proportion of the nation's children do not even have the opportunity of primary schooling.

It was agreed that compared with industrialized countries, the problems encountered in establishing student loans in developing countries are likely to be more severe, while the need to reduce public expenditure burdens is even more acute.

This underlines the need to find an appropriate balance between public and private finance for investment in higher education, and between grants and loans as forms of student support, both in developing countries and in industrialized countries. The IIEP forum demonstrated the complexity of the issues, and also demonstrated that there is no one system that is suitable or appropriate for all countries. Nevertheless, opportunities to learn from the experience of other countries are always valuable, and all participants felt that the exchange of information, particularly on experience of student loan programmes, can help in the difficult process of choosing between alternative systems of student support.

III. Background orientation paper

Sharing the costs of higher education: recent trends and developments of financial support

by Maureen Woodhall

1. Introduction[1]

The early 1990s will be a time of major change in higher education in many countries. Demographic trends mean that universities, polytechnics and colleges throughout Europe and North America will be facing the problem of declining numbers of school leavers at a time when demand for graduates in the labour market will be growing. However, at the same time, financial pressures on higher education will continue or even increase, as governments seek to control or reduce public expenditure while responding to new claims on the public purse.

During the 1980s there have been significant changes in the level and mechanisms of funding higher education institutions in many countries. Not only in the United Kingdom, but in several other countries, the level of public support for higher education has been reduced, and institutions have been encouraged or forced by economic pressures to seek new sources of funds, for example from industrial and commercial sponsorship of research and continuing education and training. These trends are likely to continue; the funding of higher education institutions and the balance between public and private finance or teaching and research will remain a subject of political debate in many countries.

1. Sections 1 and 2 of this paper are from *Financial Support for students: grants, loans or graduate tax?* Edited by Maureen Woodhall. Contributors: Nicholas Barr, Janet Hansen, Bruce Johnstone, Martin Morris, Maureen Woodhall. London: Kogan Page, 1989. Reproduced by permission of the publisher. Information concerning the availability of this book may be obtained from the Publications Officer, Institute of Education, University of London, 20 Bedford Way, London, WC1H 0AL, United Kingdom.

An equally urgent question that is now high on the political agenda, not only in the United Kingdom, but in several European countries, in the United States and in Australia and New Zealand, is how much and what type of financial support should governments provide for students in higher education. Major changes in systems of student financial assistance are being proposed or introduced in several countries. Year 1990 will see the introduction of student loans in the United Kingdom, and at the same time there will be significant changes in Australia, Sweden and the Federal Republic of Germany in systems of student support, in the balance between grants and loans and the way in which graduates are required to contribute to the costs of higher education, by loan repayments or graduate tax. In the USA the *Higher Education Act* will expire in 1991, and there will therefore be major debates over reauthorization of student aid programmes[2].

The next few years will therefore be a time of change, controversy and debate about financial support for students. Not since the mid-1960s, when significant new programmes of student support were first introduced in many countries, has there been such widespread concern about whether students should receive grants, loans or pay a graduate tax, how the costs of higher education should be shared between students, parents and the taxpayer, and the effects of any solutions on participation in higher education. The effects of student aid on access, particularly by low-income students, women, ethnic minorities and mature students is of major concern, when the number of eighteen year olds is declining in most developed countries. But other questions are equally pressing. What is the effect of rising burdens of debt in countries which already rely heavily on student loans? Do the problems of default, or high costs of administration or interest subsidies, wipe out any possible benefits from introducing or increasing loans? How much should parents be expected to contribute, or should students be

2. See Gladieux (Ed., 1989) for a recent review of policy proposals for radical reform or incremental change of student loan programmes in the USA.

encouraged to be financially independent? Should employers be required to make a more direc. contribution to the costs of producing the skills and knowledge that they require from their graduate employees?

All these questions are being widely debated, and different countries are producing different solutions, and experimenting with new mechanisms for sharing the financial burdens of investing in tomorrow's workforce. It therefore seems opportune to examine international experience with grants, loans and other means of student support. No country is satisfied that it has yet developed a completely adequate system of student support, and the search continues for the best way of sharing the costs of higher education.

What common trends or problems have emerged during the 1980s and what lessons can be learned from international experience to guide decisions for the 1990s? It is in the hope of answering these questions that this paper analyses recent trends in Australia, the Federal Republic of Germany, Sweden and the USA, and examines the United Kingdom Government's proposals for student loans.

2. The introduction of student loans in the United Kingdom

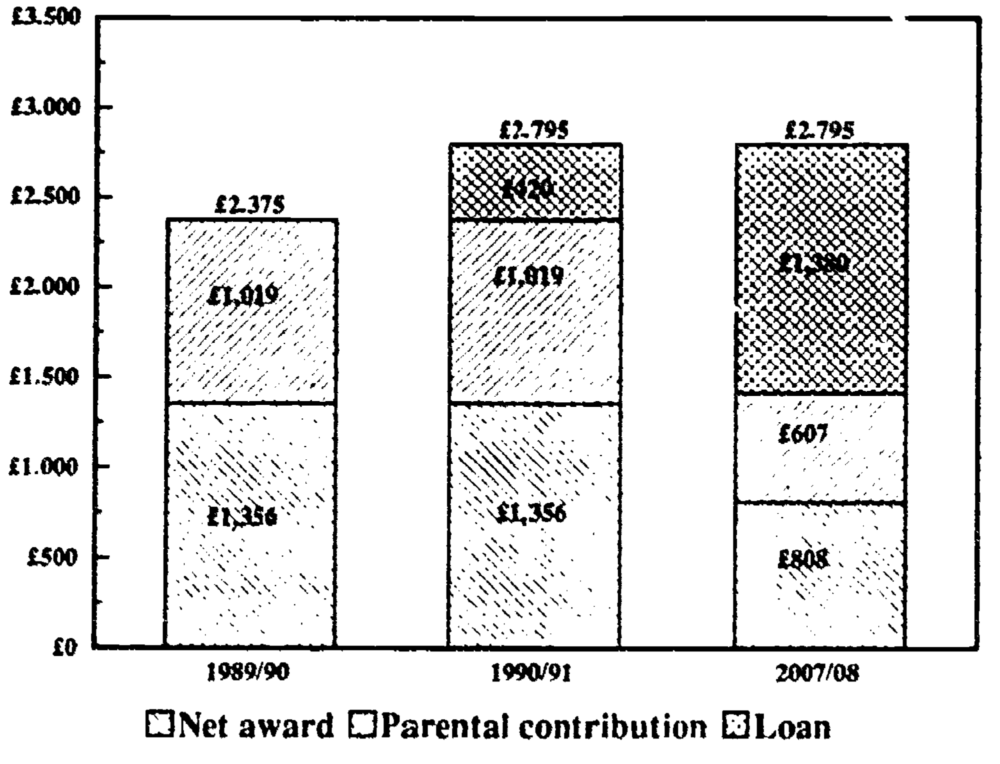
The Government's proposals

The White Paper, proposing "top-up loans" for students was published in November 1988 *(Department of Education and Science, 1988)*. The government proposed to introduce a "top-up loan" scheme, for the academic year 1990-91 which would provide all full-time students in higher education with loans on the following terms :

. zero real interest,
. no means-testing,
. repayments responsive to earnings,
. no cross-liability of spouses.

The purpose of these loans will be to *top up* the existing grant and parental contribution, but the intention is that as inflation reduces the real value of the current rates of grant and parental contribution, the real value of the loan will increase, until it represents half the total student support. On the assumption of an annual rate of inflation of 3 per cent, this point would be reached by years 2007/8, as *Figure 1* shows. However, if, as now seems increasingly likely, the rate of inflation remains above 3 per cent a year, loans would represent half the total student support before the year 2007.

Figure 1. Levels of grant, contribution and loan (1990-91 prices)



NB: Figures apply to students with average parental contribution and award for 1990-91. The gross award is equivalent to the rate of grant payable outside London plus average additional allowance of £145. *Source:* Department of Education and Science (1988), p.15.

Loans will be offered to all full-time students in higher education, up to the age of 50, and neither the student's own income, nor that of his or her parents or spouse will be taken into account in determining eligibility or size of the loan.

Repayment of the loan will start nine months after graduation and the debt will be revalued each year, in line with inflation, but "no interest will be charged and repayments should be responsive to individuals' economic circumstances" (ibid. p.16) to ensure that decisions about choice of career or interruption of work to raise children "should not be inhibited by an obligation to complete repayment of the loan".

No precise details have yet been agreed, and the White Paper considers four possible repayment schemes :

1. The repayment term could be a fixed number of years, with the provision that in any year when earnings were low -- for example less that 85 per cent of national average income -- repayments could be deferred and the repayment period extended.
2. The repayment could be variable, with the annual instalment fixed, for example at £400 a year.
3. The repayment period could be fixed in line with the size of debt, so that those with large loans would have longer to repay.
4. Repayment could be directly related to taxable income, with the annual instalment expressed as a proportion of taxable income -- perhaps in the region of 4 per cent -- rather than a fixed sum. This would mean that any graduate with income below the income tax threshold would automatically defer repayment, and the proportional burden of repayment for all those above this threshold would be the same, so that those with high earnings would repay their debt more quickly than those with a low income: "The Government expects that a student taking out a small loan and then earning an average graduate salary would complete repayments in five years. Graduates with large loans or lower earnings would take longer." (ibid. p. 17).

The Government "does not intend that repaying the loan should be a lifelong commitment". The circumstances under which a debt would be written off include :

- Death.
- Either when the graduate reaches the age of 50, or 25 years after the loan commenced, whichever is sooner.

In addition to introducing "top-up loans", the government intends to establish *three access funds* to be administered by higher education institutions in order to provide discretionary bursaries. Each access fund will consist of £5 million a year to provide additional support to home students "in cases where access to higher education might be inhibited by financial considerations or where students, for whatever reasons, face real financial difficulties". (ibid. p. 18). The *three* funds are intended for :

- Students in full-time higher education who are eligible for loans, whether or not they have a *mandatory award*.
- Postgraduate students, who are not eligible for loans.
- Students in full-time further education.

Once the loan scheme and discretionary bursary funds have been established, students will no longer be eligible for income support under the social security system, nor for unemployment benefit or housing benefit. The Government estimates that this will save £65 million a year (in 1990 prices), compared with an initial expenditure on loans of £167 million. Thus, the White Paper proposals involve a net increase in public expenditure of about £120 million in 1990. Loan repayments will not generate any significant savings for some years, but as the real value of the grant falls and loan repayments increase the government estimates that loan repayments will begin to cover the additional costs of providing top-up loans and discretionary bursaries by about year 2001, and by year 2018 there should be an annual saving in public expenditure of about £200 million (in 1990 prices).

These calculations are based on assumptions about increases in participation in higher education, the take-up of loans by students, inflation, the employment prospects of graduates and the proportion of graduates who defer repayment or default. The calculations do not take account of the costs of administering the loans, nor of any reduction in the costs of administering grants and social security benefits for students.

The White Paper does not explain how the loans will be administered, but states that the *Department of Education and Science (DES)* is discussing with banks, building societies and others, the arrangements for making loans and collecting repayments. "The Government's objective is to identify a cost-effective scheme which the financial institutions will administer". (ibid. p.21). However, in the months following publication of the White Paper all the evidence in the press was that the banks remain unenthusiastic about the possibility of administering the loans, and will refuse to participate in the loans programme.

Alternative proposals for loans in the United Kingdom

The White Paper states that "there is scope for discussion about the way the loan scheme should be structured so as to provide students most effectively with the support they need" (ibid. p. 21). Comments were invited on the various options for repayment. altogether over 100 submissions were sent to the DES. It is likely that many of these would involve criticisms of the whole notion of "top-up loans", but the White Paper made clear that :

> "The Government is convinced that the availability of a loan facility to top up the maintenance grant will provide a valuable extension of the sources of support available to students. It will support the broadening of participation in higher education, at the same time as sharing the cost of supporting students' maintenance more equitably between taxpayers, students' families and students themselves". (ibid.).

Thus, the question is not **whether** loans will be introduced, but **how** and on what terms. Various proposals have been made that would represent radical, rather than marginal, changes to the Government's proposals.

Nicholas Barr has proposed a system of loans based on *National Insurance Contributions* (NICs), as he first proposed in the "Alternative White Paper" (Barnes and Barr, 1988). Since the White Paper was published, he has elaborated on his proposals and compared them with the Government's proposals for "top-up loans" (Barr, 1989).

He argues that a system of "mortgage-type" loans, under which students borrow from public funds, but with banks are responsible for both loan disbursements and the collection of loan repayments, would result in "an administrative system of considerable complexity and huge costs". His estimates of the administrative cost of the scheme, together with the cost of interest subsidy implied by the Government's proposal to offer loans at zero real interest rates, lead Barr to the conclusion that the White Paper scheme would actually increase the *Public Sector Borrowing Requirement (PSBR)* by £300 million by year 2005 and by £175 million in the long run. On the other hand, he estimates that a system of loans with income-related repayment, collected by employers by an additional NIC payable by graduates, would reduce the PSBR by £300 million in 2005 and by £350 million in the long run. He believes that the reasons for this enormous difference are firstly that default and write-off of loans, (which he calls "leakage"), would be much less under an NIC-based system than under a system of mortgage-type loans, with repayments collected by the banks ; secondly, there would be no need for interest subsidies ; and thirdly that start-up funds for such a scheme could come from the private sector, rather than from the public funds.

Thus Barr argues that a scheme of student loans with repayment based on *National Insurance Contributions (NIC)* is simultaneously: "fair, efficient, cheap, administratively simple, easy to understand, flexible and politically attractive. It would have a major impact on access and expansion. It could be put in place immediately."

Barr's proposal has been widely discussed, but there has been no official reaction to his argument that an *NIC-based scheme* would offer many advantages over the White Paper proposals.

The idea of income-related contributions, possibly linked to NICs has, however, been taken up by others including, most significantly, the *Committee of Vice-Chancellors and Principals (CVCP)*. In its response to the White paper (CVCP, 1989) the Committee proposed a "graduate tax contribution rather than a loan scheme", but argued that these contributions could be paid through either the tax or the National Insurance system. The *CVCP* announced, in its original submission to the DES review of student support in 1986, the criteria it believed that any new system of student support should meet. These are that the scheme should :

- be **simple**,
- provide students with **adequate** support while they study,
- provide students with **certainty** that they will receive this support,
- satisfy the requirements of **social justice**.

The *CVCP* believes that the proposed top-up loans do not meet these criteria, and instead proposes that all graduates should be required to pay income-related contributions, over a period of, say, ten years ; these contributions could be collected via income tax or NICs. The CVCP argues that:

> ". . . if the principle of a "graduate contribution" were accepted there would be a strong case for restoring the real value of the grant, taking account of regional differences, abolishing the parental contribution and eliminating the means test. Together, they would satisfy the Committee's criteria by being adequate, simple, certain and socially just, in a way that the Government proposals are not."(ibid.)

Others have followed Barnes and Barr in taking up the idea of income-related contributions or loan repayments, and linking this proposal with the idea of a significant increase in tuition fees for all home students, possibly even full-cost fees, to be paid by a combination of state bursary or higher education voucher, supplemented by loans. Some of these proposals could lead to loans which were much more substantial than the *top-up* facility envisaged in the White Paper.

3. International experience of financial support for students: recent trends and developments

Sharing the costs of higher education

Many countries, including Australia, the Federal Republic of Germany, Sweden, the United Kingdom and the USA, are currently, or have recently, been engaged in re-examining the question of how higher education should be financed, and have proposed new methods of sharing the costs of higher education between the main financing partners : students, parents and taxpayers. Higher education benefits both the individual and society and in all countries both the individual and the taxpayer share the costs, though as Bruce Johnstone demonstrates in "Sharing the costs of higher education" (Johnstone, 1986), the burdens are shared in very different proportions in different countries.

Some countries are also trying to develop the role of a fourth partner. In the USA individual and institutional philanthropy is an important source of finance, particularly for private universities, and some British universities are now trying to increase income from this source. Many people have argued that industry should be regarded as the fourth partner, and should play a much more direct role in financing higher education, since employers share in the benefits of higher productivity from graduates in the labour market and from the application of research. Several countries are trying to increase the contribution of industry, and have suggested some form of education tax or levy, or industrial sponsorship of students, and in the United Kingdom the Government has urged universities and polytechnics to seek additional funding from industry, in the form of research contracts, sponsorship or fees for training courses for their employees.

Shifting the financial burdens

The main changes being introduced or proposed in several countries involve shifting burdens between the three main financial partners: students, parents and taxpayers. Bruce Johnstone's comparisons of student support in the United Kingdom, France, Germany, Sweden and the USA in 1986 showed that students bear a greater share of the costs of higher education in the USA, through loans and part-time work, than in the other four countries; the parental share is lowest in Sweden, since the student aid system does not assume or require any parental contribution. The taxpayer's contribution is greater in the United Kingdom than in the other countries, because of the system of free tuition for the vast majority of British students, combined with maintenance grants and the absence, until now, of any official system of student loans.

The British Government last year announced the introduction of "top-up loans" for students in higher education from 1990, which will shift some of the costs from the taxpayer and parents to students. At the same time several other countries, including Australia and Sweden, have announced changes in their system of student support which will shift financial burdens between students, parents and taxpayers, or change the balance between grants and loans. The Australian Government is introducing a higher education contribution, which is widely described as a graduate tax, although in proposing the scheme, the *Committee on Higher Education Funding*, Chaired by Mr Neville Wran, the former premier of New South Wales, preferred to call it a *tax debit*, rather than a *graduate tax*. Sweden is introducing a new system which changes the balance between grants and loans and also changes the repayment terms of student loans. West Germany switched in 1984 from a combination of loans and grants to an all-loan scheme, although there was still a substantial subsidy, as the loans are interest-free, with repayment spread over twenty years. Nevertheless, the fact that under the *BAföG* system all student support has been in the form of loans, since 1984, has been much criticized in the Federal Republic of Germany and a Commission set up to review student support recently recommended that grants should be reintroduced, and support should be in the form of 50 per cent grant, and 50 per cent loan. New types of student loans were also introduced in Japan in 1984 and Denmark recently announced changes in their combined loan and grant system from 1989.

In the USA there is continuing debate about the effects of the complex system of financial support for students. Federal student support programmes are due for reauthorization in the early 1990s, and a number of issues are currently being debated, and there have been several recent proposals for change or attempts to introduce some new kind of programme, such as the experimental *Income Contingent Loans* introduced on a small scale a few years ago, or Michigan State's "pre-payment plan" which encourages parents to begin saving for their children's higher education as soon as they are born. Several radical proposals have been made in the USA, including a proposal by Robert Reischauer of the Brookings Institute for a new *Higher Education Loan Program (HELP)*, which would provide loans with income-contingent repayment, with graduates paying a fixed proportion of their income through the tax system (see Gladieux (Ed. 1989). Another proposal was incorporated in the *National Service Bill*, recently defeated in the Senate. This would have replaced federal student grants and loans by education vouchers given in return for some form of national service -- either in the army or in civilian volunteer organizations.

Thus, many countries are currently debating how the costs of higher education should be shared, what combination of grants, loans and other support would best achieve the objectives of equality of opportunity and increased participation in higher education without imposing excessive burdens on public expenditure, and whether incremental or radical change is needed in the current systems of student support. This paper provides a brief summary of the main developments and proposals for change in several European countries, as well as Australia, Japan and the USA, and identifies the main policy issues that need to be considered in evaluating the effects of these changes.

Recent changes in relative shares of higher education costs

If we examine trends in the share of costs borne by students, parents and taxpayers in most Western countries, in the last twenty-five years, there are certain similarities. In the early 1960s and 1970s the desire to expand higher education and ensure more equal participation by different social groups, led to a marked shift in the balance between public and private finance. The taxpayer provided an increasing proportion of the funds for higher education in most countries as a result of either abolition or reduction of tuition fees, or the introduction of new forms of student support, including grants, loans, subsidized job opportunities in the USA, through the federally-subsidized *College Work-Study Programme*, or indirect subsidies, such as the provision of low-cost board and lodgings for students in France and the Federal Republic of Germany.

In the United Kingdom, the existing system of *mandatory grants* was introduced in 1962. Sweden established the present system of study means ("studiemedel") in 1964, and in the USA a small student loan programme the *National Defense Student Loan Program* was introduced in 1958, followed by the *College Work-Study Program* in 1964 and the introduction of *Educational Opportunity Grants* and the *Guaranteed Student Loan Program* in 1965. In the Federal Republic of Germany, the Federal Law for the promotion of education, popularly known as BAFöG, introduced a system of student grants which was quickly converted to a combined grants and loans programme. In Australia tuition fees were abolished in 1974, and a new scheme of income support was introduced, the *Tertiary Education Award Scheme* (TEAS), which was replaced in 1987 by a more generous programme called *AUSTUDY*. In Japan the *Japanese Scholarship Foundation*, which provides financial aid only in the form of loans, grew rapidly in the 1960s, and in the early 1970s a *Current Cost Subsidy* was introduced, to subsidize tuition costs in private universities, and reduce the burden of higher education costs falling on students and their parents.

So, in most countries there was a marked shift in the 1960s and 1970s towards increased public finance of higher education, and a reduction in the share of costs met by students and their parents. Eligibility for means-tested student support was also increased in many countries, particularly in the USA with the passing of the *Middle-Income Student Assistance Act* of 1978, which meant that most students had access to subsidized loans, offered by commercial banks through the *Guaranteed Student Loan Program*.

This trend has been sharply reversed in several countries in he 1980s, and recent and current developments in Australia, United Kingdom, Japan and the USA, will further accentuate the trend towards greater contributions from parents and students and reductions in public subsidies. In the USA there has been an increased reliance on loans, at the expense of grants, which have declined as a proportion of federal student aid from 80 per cent in 1975-76 to 47 per cent in 1987-88. In West Germany, the *BAFöG* system of combined grants and loans was converted to an all-loans programme in 1984, although grants may soon be reintroduced. In Japan, the *Current Cost Subsidy* -- which was introduced in the 1970s to reduce the impact on parents of increased tuition fees in private universities -- has declined in real terms, and in the last few years tuition fees in both public and private universities have risen sharply. All financial aid in Japan is in the form of loans; most are interest-free but a few years ago, as a result of financial pressure, the Government introduced a new form of loans which charge students 3 per cent interest, and students taking high cost courses, such as medicine and dentistry, can apply for supplementary loans at 6.5 per cent.

In Australia a higher education administrative charge was introduced in 1986, and in 1988 the *Wran Committee* on *Higher Education Funding* recommended a "higher education contribution scheme that is based on users paying a proportion of the cost of their higher education through the tax system". From 1989 all those who participate in higher education, regardless of whether they graduate, will become liable to a tax designed to recover 20 per cent of the average costs of higher education. The required contribution from every student will be A$.1,800 per year, and former students will begin to pay the tax when their income reaches the level of average annual earnings of A$.22,000. At this level of income, they will pay a tax of 1 per cent, which will rise to 2 per cent when their income reaches A$.25,000 and 3 per cent when they earn A$.35,000 a year. Alternatively, students may pay their contribution as an "up-front" fee, in which case they will be eligible for a discount of about 15 per cent.

Not surprisingly, this scheme has been attacked by students, but the *Committee on Higher Education* argued strongly that it would be fairer than the present system of "free" higher education which disproportionately benefits students from upper-income backgrounds, and is largely financed by taxpayers, many of whom have much lower earnings prospects than highly privileged university graduates. The Committee recommended the new tax debit system, to be combined with improvements in the income support provided by *AUSTUDY*, as "a funding partnership in which the beneficiaries make a direct and fair contribution to the cost of higher education, to supplement the funds provided by taxpayers, who currently bear over 90 per cent of the total costs". The Committee justified its recommendations on the following grounds:

- Far greater access to higher education by people from financially and other disadvantaged backgrounds is needed. Higher education should not continue to be the preserve of the relatively privileged.
- The advantaged who use and benefit directly from higher education ought to contribute more directly to the cost of the system.
- Australian taxpayers should not be expected to carry the burden of financing the growth envisaged in higher education, particularly since few directly enjoy its financial benefits.

When announcing the new system, the Australian Government estimated that income from tuition fees and tax would amount to A$300 million over the next three years, but recent estimates suggest it may be more, since 20 per cent of new students chose to pay the "up-front" fee and more than half the students who graduated last year have earnings that would make them liable to pay the tax.

A similar scheme was proposed in New Zealand, in a report to the Government by Professor Hawke, but this has not been introduced. Both the Wran and the Hawke Reports challenged the belief that the costs of higher education should be overwhelmingly borne by taxpayers, and the Wran Committee cited evidence to show that providing free education had not ensured equality of opportunity. Recent research in Australia has demonstrated that the abolition of tuition fees and the introduction of income support in 1974 did not lead to increased equality of opportunity. In 1984, 43 per cent of children from professional families entered higher education in Australia, compared with 9 per cent of children from unskilled families, and the Committee quotes a study of trends in participation rates which concluded that "fee abolition had a marginal effect at best, on the accessibility of higher education for socially and economically disadvantaged groups; at worst, it provided a further benefit to the economically advantaged". (*Committee on Higher Education Funding*, 1988, p.5).

Similar doubts have been expressed in other countries about the effects of increased public subsidies in the 1970s. In Sweden, a study of the influence of student aid on the participation rate of different social groups concluded that when the system of study means was first introduced in the 1960s "it has a significant socially equalizing effect, an effect which has now been lost". (Reuterberg and Svensson, 1987). Partly as a result of the growing concern that the Swedish system of combined grants and loans was no longer achieving its objective of equalizing opportunities for higher education, major changes were introduced in 1989. One of the main changes is that the balance between grants and loans will be changed. In future, students will receive a higher proportion of their total study assistance as a grant, but at the same time the terms of repayment of loans will be less generous. The net effect of these changes will be that there will be very little change in the relative contributions of students and taxpayers, but the incidence of the subsidies will alter. Students will receive higher subsidies while they are actually studying and lower subsidies in the form of interest reductions after they graduate. Another change in the Swedish system is that in future loan repayments will be linked to income; graduates will be required to pay 4 per cent of their income as loan repayments, until the loan is repaid. This change has been introduced because of concern in Sweden about the increasing burden of debt.

This concern is shared in other countries, particularly the USA, although in a recent paper Janet Hansen points out that recent research in the USA suggests that borrowing is not out of control, and that most student borrowers have manageable debt burdens. (Hansen 1987). However, she also emphasizes that there is no consensus about what constitutes a "manageable debt". Different studies have ranged in their recommendations from 3 to 15 per cent of income. It is interesting to note that both Australia and Sweden have proposed income-contingent loan repayments; Australia will require 2 per cent, or 3 per cent from those with high incomes, whereas Sweden requires 4 per cent of graduate income. However some of the recent proposals for income-contingent loans in the USA, considered 9 or even 10 per cent as a reasonable proportion.

Summary of recent trends and issues for the future

Certain common trends can be observed in the various changes that have been proposed or introduced in recent years. As evidence accumulates that "free" higher education, coupled with grants or student maintenance, does not ensure equality of opportunity, but tends to benefit upper-income families, several countries have reduced subsidies for upper-income students, and the recent proposals in Australia go even further in requiring a substantial contribution to tuition costs in the interests of equity.

One result of these changes is that in several countries student support is now targeted more sharply on financially needy students. In the USA, with eligibility for subsidized loans dependent on family income, there is now a considerable range of loan programmes, with different repayment terms.

Reliance on loans rather than grants has increased in the 1980s, particularly in the USA and West Germany? Sweden is unusual in reversing this trend. Loans accounted for 75 per cent of total student aid when study means was first introduced in 1965, but by 1987 the proportion was nearly 95 per cent. From 1989 grants, as well as loans, will be index-linked, and loans will represent 70 per cent of the total. In introducing "top-up loans" the United Kingdom is therefore following a widespread trend.

Another significant trend is towards income-contingent, rather than simple mortgage-type loans. Growing concern about high debt burdens, particularly in the USA and Sweden, has led to experiments with income-contingent loan repayments, which many economists have advocated as the most equitable form of student loan. Experience in the USA and Sweden shows that some form of low-income insurance is vital, if default rates are to be kept low. However, it must be emphasized that even in the USA, where default rates have been widely publicized, 85 per cent of all graduates do repay their loans promptly.

Experience in several countries suggests that a system of student support which combines grants with loans, preferably with income-contingent repayments, or with insurance for the unemployed or low-paid, is perfectly feasible. However there are a number of issues that must be addressed in evaluating student loans compared with grants or a graduate tax. Several of these issues will form the agenda for our forum:

- What are the effects of student loans on access to higher education and participation rates?
- What is an acceptable size of debt for higher education students ?
- What are the implications of demographic trends and changes in the labour market on the provision of student loans in the years ahead?

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IV. Annexes

ANNEX A

Summaries of student support systems

I. Denmark

In Denmark a *State Educational Support* system has been in force since the 1950s. The educational support consists of a combination of scholarships and State loans, and from the mid 1960s to 1988 it has also included State-guarantees for loans raised in banks and savings banks.

Scholarships and State loans are granted according to the financial circumstances of the applicant and -- for certain age groups -- depending on the income and assets of the parents.

State-guaranteed bank loans are granted to all students applying for them, regardless of their financial circumstances.

State loans are granted by the State and are to be repaid to the State. Repayment starts one year after the termination of the study and is to be fulfilled over a maximum period of 15 years, with a fixed amount depending on the size of the debt. The rate of interest of the loans is low, at present 4 per cent is charged during the period of study and after graduation there is a variable rate of interest: National bank rate + 1 per cent which is now 8 per cent.

State-guaranteed student loans in banks or savings banks are based on agreements between borrowers and a bank or savings bank, and the rate of interest to be paid on the loans is fixed by the banks/savings banks in question. The rate of interest is in principle fixed on the basis of financial market conditions, but is generally favourable in consideration of the purpose of the loan and the State guarantee; at present the rate is 11 - 12 per cent during the whole of the period of the loan. Repayment to the bank/savings bank starts one year after the completion of study and is to be fulfilled within a maximum of 15 years.

Especially during the period 1975-1982 a heavy increase took place in the number of State-guaranteed loans in banks/savings banks, since this was the only possibility for obtaining loans. Combined with the high rate of interest and the growing rate of unemployment, the debt became a severe burden to many students.

In 1981 more than 5 per cent of those who should have repaid the State-guaranteed loans had a debt of over Dkr.100,000 compared with hardly any in 1975. In 1988 the comparable figure was 15 per cent. Therefore, in many cases the State has to stand surety for the full amount and take over the loans.

In 1982, however, State loans with a low rate of interest were reintroduced as a form of support. At the same time subsidies were introduced for repayment of study debts to banks/savings banks for those who had completed their study. The extent of the subsidy for repayment of loans is dependent on the recipient's financial circumstances and the size of debt.

Furthermore, in 1987 it became possible to be released from study debts in cases where students have not been able to repay the debt within 12 years after completion of study.

In 1988 the present *Educational Support System* was introduced. The State-guaranteed student loans in the banks/savings banks were abolished (apart from a temporary provision for certain mature students). The scholarships and the State loans were increased considerably so as to enable the students to live on these forms of support, thus decreasing the need for "paid work", and at the same time making it possible to complete the period of study without heavy burdens of debt.

In 1989/90 the amounts of *State Educational Support* for 12 months are:

	Scholarship Dkr.	Loan Dkr.	Total Dkr.
For students living at home with their parents	22 295	16 214	38 509
For students living on their own	36 482	16 214	52 696

Owing to the fast growing expenditure on Government transfers, including educational support, the Government is currently considering the amount of educational support and its methods as well as conditions for obtaining support. In 1989, the annual regulation of State Educational Support was changed, in order to follow the wage trend in the public sector labour market, and not the trend of prices as previously.

The main features of the legislation governing State Educational Support in Denmark are summarized below.

Summary of Act No. 357 of 4 June 1986 on Danish State Educational Support (with amendments from 1987 and 1988)

Act No. 357 of 4 June 1986 with amendments, concerns State Educational Support to students of 18 years or more. This support is given in the form of scholarships and direct State loans, and until 1993 also in the shape of State-guaranteed loans from banks and savings banks to a small group of older students.

The scholarships and State loans are given according to the financial need of an applicant (depending on his own economic circumstances and the size of income and assets of his parents, in cases where the applicant is under 19 years of age).

State-guaranteed bank loans are granted to a small group of older students, regardless of their financial situation.

The maximum amount of state educational support available from August 1989 (1st August 1989 - 31st July 1990):

	Scholarship Dkr.	Loan Dkr.	Total Dkr.
For students living at home with their parents	22 295	16 214	38 509
For students living on their own	36 482	16 214	52 696
State-guaranteed loan in banks or savings banks for students who are not eligible for scholarship			48 035

Only students who are under 19 years of age are given scholarships according to the income and assets of their parents.

Support is given only to students on State-recognized courses of education.

Student grants and loans are not normally available for foreigners. However, they may be given in certain circumstances, for instance to students who have been resident in Denmark for a continuous period of at least two years immediately prior to application and have had half-time paid employment during this period.

Children of citizens from other Member States of the European community are eligible, provided that these citizens (the parents) either are or have been working in Denmark in accordance with the EEC rules regarding the free movement and establishment of citizens of Member States of the Community. The children must have come to Denmark in connection with the activities of their parents and must still be resident in Denmark.

II. Federal Republic of Germany

1. History and present situation

Discussions concerning the question of how far the constitutional welfare state is obliged to create equal opportunities already began in the Federal Republic of Germany in the 1950s. In 1957, DM.30 million were first set aside in the federal budget to further this aim. But there was no Federal Act at that time, merely guidelines provided by the Federal Ministry of the Interior, since the Federal Government lacked the legislative competence in this matter. 40 per cent of this financial support consisted of interest-free loans and 60 per cent consisted of grants. The sum of money which had to be paid back was, however, reduced to DM.1,500 if the student sat and passed his university examinations within the period specified as the maximum time allowed for financial support. After finishing his studies, the student had to pay back the loan to the *Deutsches Studentenwork* in instalments of DM.50 a month over a period of three years. About 17 per cent of university students received financial support by the end of the 1950s.

By the end of the 1960s, 26 per cent of the 400,000 students in the Federal Republic of Germany were receiving financial support from the state. The total volume of support amounted to a little over DM.400 million. The proportion of students coming from working-class families rose from barely 5 per cent in 1953 to 10 per cent by the end of 1960.

At the end of 1960, due to an amendment of the constitution, the Federal Government was given some responsibility for educational assistance. At first the financial support of pupils, and in 1971 the entire educational assistance system was laid out within the framework of the *Federal Educational Assistance Act (BAföG)*. The justification for this law was that hitherto large numbers of young people, whose parents were not in a position to bear the high costs of education or training lasting several years, were not able to receive education to match their abilities, which stands in contradiction to the welfare state principle of the constitution. The objective of achieving equal opportunities in the educational system requires, therefore, that children from families with low- and middle-incomes should be given the opportunity to receive a thorough education through financial support granted by the State. In 1972, out of a total of 720,000 pupils and 606,000 students, 270,000, or nearly 45 per cent received support. At that time this financial support consisted solely of grants.

Already in 1974 the *Federal Educational Assistance Act (BAföG)* was amended in such a way that from that year part of the financial support was given in the form of a loan. The loan rose from an initial DM.80 per month to DM.150 per month by the beginning of 1980. This meant that a student who had received financial support had to pay back almost DM.9,000 in monthly instalments after finishing his studies. The loans are granted without interest. They have to be paid back at a rate of DM.120 a month at present, (this will probably soon rise to DM.200 a month) within a maximum period of twenty years. Commencement of these repayments begins five years after the specified maximum period of financial support for the respective courses of study. If a former student is employed, but earns less than DM.1,135 per month, the repayments may be postponed.

In the years from 1975 to 1982, between 338,000 and 345,000 students received financial support. However, since the total number of students in this period rose from about 800,000 to 1,2 million, the percentage dropped from 43.6 per cent to 29.6 per cent.

The percentage of university students from working-class backgrounds rose from 11 per cent in 1973 to 16 per cent in 1982. Of these students, 61 per cent received financial support through funds made available through the *Federal Educational Assistance Act* (BAföG).

The percentage of female students rose from 32.9 per cent in 1972 to 40.5 per cent in 1980 at universities and from 18.1 per cent to 30.8 per cent at *Fachhochschulen* (technical colleges).

The high costs of educational assistance and the strained finances of the public budgets led to ever greater restrictions in the sphere of educatic.ıal assistance. At the end of 1982, through a re-enactment of the *Federal Educational Assistance Act* (BAföG), the financial support of school pupils was almost totally abolished and the financial support of students became a full loan. The amendments made between 1981 and 1983 led to savings amounting to over DM.2,000 million.

The system of financial support leads to two separate categories of people who have completed courses of higher education: one group of people whose education was fully financed by their parents, who then received tax relief as a result, and a second group which is dependent on educational assistance from the State. One group of students starts working life without a financial burden. The other group has depending on the course of study and the amount of financial support, debts amounting to DM.50,000 after finishing the course of study. It cannot be denied that through this measure students from lower-income families may be prevented from concluding a course of higher education. It is also to be notcu ihat already today the young academic generation has debts of over DM.10,000 owing to the State, although the hig'ı degree of subsidy provided during repayment means that there is a substantial "hidden grant".

2. Recent developments

Since 1982 we have seen the following development:

The number of people receiving financial support has in the meantime dropped to about 20 per cent. In addition to the restrictions due to the re-enactment of the *Federal Educational Assistance Act* (BAföG), the insufficient adjustment of tax-free allowances for parents plays a decisive role.

There is also a clear decline in the readiness to study among women from lower-income families. Among those who completed their higher-education entry examinations *(Abitur)* in 1983, 51 per cent wanted to start studying. In 1986 this figure was only 37 per cent. The fact that financial support under the *Federal Educational Assistance Act*

(BAföG) is now only given on a full-loan basis was doubtlessly not the only cause of this decline. In particular the effects of the labour market for graduates should also be taken into account. However, in addition to other factors having an influence on the decision to study, the system of educational assistance plays a decisive role. Children from lower income families are the first to react to restrictions introduced in the system of educational assistance. The question of whether there would have been the same decline in the readiness to study if the job market for graduates had been more favourable for them, cannot really be answered.

Among those entitled to study in 1983, 8 per cent of the female school-leavers coming from lower income families who had passed the university entrance examination (Abitur) and a proportion as high as 11 per cent of those entitled to study who had passed the restricted university entrance qualification *(Fachhochschulreife)* stated they had forgone going into higher education due to the recent shift to an all-loan system of financial support under the *Federal Educational Assistance Act* (BAföG). As a proportion of all those who were entitled to study, the figure was 3.5 per cent.

Answers received from those who had benefitted from financial support as pupils, and were entitled to study in 1986, show how important financial support is in helping pupils pass their university entrance examinations. Ten per cent of those entitled to study had received educational assistance. Among these pupils almost half, namely 46 per cent, stated that they could not have passed the university entrance examination without this assistance.

In 1985, 32 per cent of the children of civil servants, about 18 per cent of the children of self-employed people, 19 per cent of the children of white-collar workers and under 4 per cent of the children of blue-collar workers went into higher education according to the respective ages of entry to university. New figures for 1988 are to be expected in the near future.

It was especially the children of lower-income families who abandoned plans to enter higher education after 1983. There are now signs that there has been a slight increase in the readiness to study.

The changes in the circumstances affecting university entrants also influenced the social mix of the students. The decline in participation of the different social groups on the one hand and the changes in the socio-demographic mix of the population on the other, were the main factors responsible for the shift.

The proportion of students from lower-class backgrounds (children of blue-collar workers, salaried white-collar workers and junior civil servants) continued to decline from 23 per cent in 1982 to 20 per cent in 1985, while the proportion of those from the high social class (self-employed people in higher income brackets/senior white-collar workers, senior civil servants and self-employed people in medium-income brackets having a university education) developed in exactly the opposite direction. The latter rose from 18 per cent to over 20 per cent. According to our past experience this trend will continue.

Over the last few years, since the *Federal Educational Assistance Act* (BAföG) became effective, there have again and again been discussions about alternative models for financing systems. At the suggestion of the *Bund-Länder-Kommission* (a committee of the Federal Government together with the Länder) a working group was established in 1977. This group considered the following models for financing higher education:

(i) *Model for financing by the State*

In this model the entire individual and institutional costs are covered by tax revenue. If this were fully implemented, every student would receive a grant to cover his or her needs, regardless of family background.

(ii) *Loan-fee model*

In this model the institutional costs of the university are financed by fees. The student is given the opportunity to take up loans from the State for the purpose of paying these fees. Loans to cover personal needs are also granted.

(iii) *Graduate tax*

The university costs are in this case again paid for by the students but after graduation, on the basis of a tax or charge representing a fixed proportion of their income after having finished studying.

The working group recommended at the time that the child-benefit allowance under the *Child Benefit Act (Kindergeldgesetz)* for children studying, as well as the tax-free allowance related to children studying, be replaced by a basic subsidy awarded to every student, regardless of family background, providing he or she does not exceed a specified period of studying. Additional financial support to "top up" the basic grant should be provided and should be dependent on the family background; in the view of the working group, this additional support should be awarded partly as a grant and partly as a loan. This model corresponds to the already existing model in the Netherlands.

An important result of the recommendations of the working group at the time was the rejection of all alternative models, which meant a deviation from the model of pure state-financing. This was thus a vote in favour of maintaining the present system of financial support. The suggestion of the basic grant *(Sockolbetrag)* for all students was not implemented at the time.

Over the last few years, the discussion regarding the idea of an educational loan as a supplement to the existing system has once again grown in intensity. In the search for solutions which focus on the financial responsibility of the individual and the provisions for the trainees or their parents, two basic ways of financing education were debated. These will not be implemented at present, however, since there is little general acceptance of these models.

3. The report of the Advisory Committee

In 1986, the *Federal Minister of Education and Science* set up an Advisory Committee for educational assistance and entrusted it with the task of writing an expert report. On the basis of the findings of the committee, the *Federal Minister of Education and Science* has drawn up a bill for a re-enactment of the *Federal Educational Assistance Act* (BAföG) which, among other things, will include a provision for half of the assistance provided by the State to be given as a grant and the other half as a loan. This amended law is likely to become effective in July 1990.

The Committee reported in November 1988, and put forward a number of *"Proposals for the Reform of BAföG."* These proposals included:

- Increasing the eligibility for student support by increasing the proportion of parental income that is disregarded for purposes of calculating the eligibility for BAföG; the proportion of income that is disregarded should be increased from 25 per cent + 10 per cent per additional child, to 50 per cent + 5 per cent per additional child. This charge would require an additional expenditure of DM.450 million per annum.
- The provision of 50 per cent grant, 50 per cent loan, in place of the previously "hidden grant" representing up to 77 per cent of the total *BAföG* payment.

Various estimates have been made of the number of students who would require additional study loans, but until the changes in the *BAföG* system have been finalized, it is impossible to calculate their effects.

It can be estimated, however, that the resources needed to cover the living costs of German students will probably amount to DM.15,000 million per annum. It is noteable that half of these resources will be covered by the students' families, namely parents, partners, relatives, almost a third will be covered by the students themselves, mainly through their own work, and only an eighth of the total sum of resources will be covered by loans granted under the *Federal Educational Assistance Act* (BAföG). Possible tax-free allowances have not been considered in the above figures, which nevertheless show approximately how the costs are shared between the State, parents and students.

The latest figures show that of the 1,395,000 students at German universities, 93.9 per cent are German, 6.1 per cent (84,000) are foreigners and 38 per cent are female students (534,000). About 20 per cent of these students receive financial support under the *Federal Educational Assistance Act* (BAföG).

4. The acceptable size of debt

The nominal indebtedness of a student, fully financed by BAföG, amounts to DM.50,000 after 10 semesters. However, given the circumstances in the Federal Republic of Germany, the high share of subsidies has also to be taken into consideration. In fact, the real indebtedness is much lower, since the loans are interest free, and repayment is spread over 20 years. In addition, if a student graduates 4 months earlier than the normal period of BAföG assistance, he or she will receive a reduction of DM.5,000 in the total debt, and if the student is in the top 30 per cent of the final examination class, he or she will receive a reduction in the total debt of 25 per cent. Given the high proportion of subsidies, a student's real indebtedness is actually considerably reduced. In economic terms, the average amount of indebtedness is generally acceptable.

5. Possible effects of demographic factors

Despite the declining birth rate, the number of students in the Federal Republic of Germany is expected to increase up to the mid 1990s, based on current estimations. So far, at the macro-economic level, there will be no lower burden for public expenditure. At the micro-economic level, the changed number of children per family will influence the size of the BAföG target group as well as the family income. We have not been able to construct models which are able to answer this question accurately, due to the complexity of the factors involved.

III. Netherlands

From the 1960s up to 1986 the student support system in the Netherlands involved a combination of study allowances, child benefit and tax allowances. The study allowances were paid directly to students by the *Ministry of Education and Science*; their amount varied with parental income, while their form (non-repayable grant or interest-free loan) depended on the students' rate of progress: the faster students progressed, the greater was the non-repayable proportion. Where parental income was high, parents could claim child benefit only, the amount of which depended on the extent to which parents maintained their children during their studies and on whether the child was living at home Finally, parents who were not entitled to child benefit were able to deduct payments for their children's studies from their gross income, thereby reducing their tax liability. Students thus received financial assistance from the State both directly (in the form of study allowances) and indirectly (via their parents, in the form of child benefit and tax allowances).

In 1986 a new system for student financing came into operation. Its main features are as follows:

- All full-time students aged 18-30 are covered by the new system (secondary and higher education) and are treated in the same way (although the duration of financial assistance for students in higher education is limited to six years). There are about 550,000 students included under the new system; approximately 75 per cent of the students are aged 18-21, and 40 per cent are living with their parents, and about 50 per cent are university students or students in higher vocational education.

- Students' financial dependence on their parents is reduced, since virtually every student is entitled to a basic grant, which is paid to him or her directly (NLG.605 per month for students living away from their parents, NLG.265 per month for students living at home).
- The abolition of child benefit and of the tax allowance for children following courses of study reduces to one the number of channels through which students receive financial assistance from the State.
- A loan and, in appropriate cases, a supplementary grant are provided in addition to the basic grant, both depending on the parental income and on the level of education. For university students the maximum loan is NLG.290 per month, the maximum supplementary grant is NLG.160 per month.
- The financial assistance which students receive from the state is subject to certain deductions relating to their partners' and their own earnings.
- Students are expected to begin repaying their loan no later than 1 January, two years after completing their studies. Repayment may be spread over a period of fifteen years. Interest is charged only after students have completed their studies. The interest charged is 0,5 per cent below the market rate and is set every year by the Minister: the rate paid by each graduate is periodically adjusted (generally every five years). Repayment takes the form of monthly instalments - whose amount depends on the number of months outstanding (but may not fall below NLG.100). Repayment instalments take account of graduates' (and their parents') ability to pay, by means of the determination of a minimum level of taxable income, below which no repayment is due. Under this system any debt outstanding at the end of the repayment period (generally fiften years) is cancelled.

IV. Sweden

Sweden was probably the first country in the world to begin to use loans as a more general form of financing studies. It was in the 1950s that loans, backed by a Government credit guarantee, were introduced for university students. A generous means test applied. Loans were only refused to students whose parents had incomes or capital assets above a high limit. The repayment period was up to 15 years. Interest was half a per cent above the highest deposit rate. The loans were administered by the banks.

However, as is the case today, the indebtedness was a burden for many students and criticism mounted. This led the Government in 1961 to permit the loans to be written off by 25 per cent of the capital debt. At the same time a Commission was set up to review the whole issue of study finance.

1. The 1965 reform

In 1965 a completely new system, which applied up to and including 1988, was introduced. A number of fundamental points and aims formed the basis for this reform. These include:

• Study assistance should be available to all who had been accepted for a place in higher education, regardless of their parents' financial situation.

• The amount of study assistance should be large enough for the student to be able to have a reasonable standard of living during his/her studies.

• Study assistance should consist predominantly of a loan. In order to be fair to other groups in society, there should only be a small grant component (25 per cent of the total sum when the system came into being).

• The future employment opportunities and income possibilities were assumed to be the same for all who had undergone higher education. In other words, the programme could have a simple and general design.

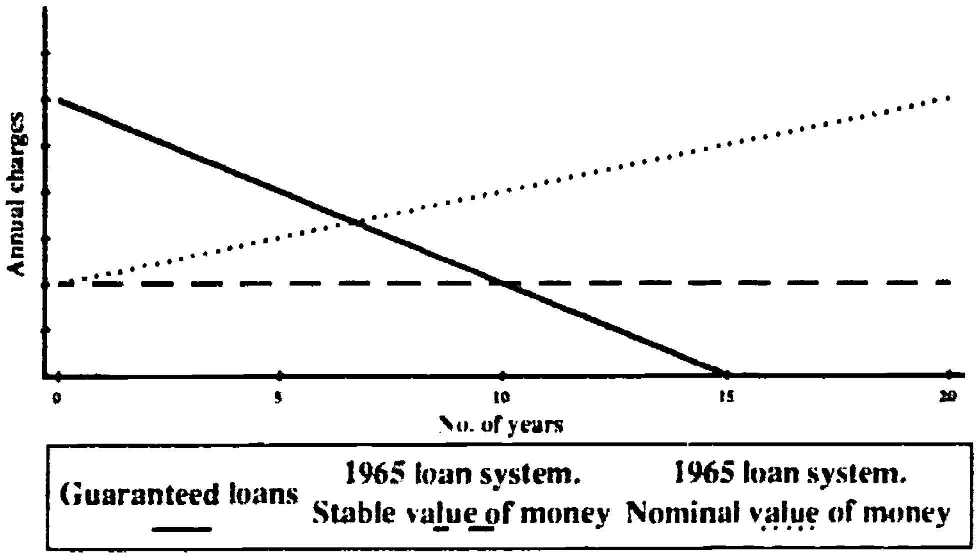
• There would be no real interest charged. The amount paid out and the accumulated debts should be linked to the consumer-price index. In other words, the borrower should repay, in real terms, as much as he had received during his studies. In this way the loan would not contain any substantial amount of state subsidization.

• Repayment should not be allowed to be too onerous. A number of guarantees were introduced such as the right to defer repayment in the case of low income, and to have the debt written off in the event of death and at the age of 65.

The intention was to achieve, through a system of successively increasing annual charges, an even repayment burden, thus solving the difficulties experienced with the previous State-guaranteed loans, whereby interest and repayment costs were greatest in the years immediately following graduation, decreasing later on when the borrower's income was higher. (See *Figure 2*.)

The system worked well in the first few years. Fairly soon, however, it began to be criticized. Students considered that the index-linked study loans compared unfavourably with traditional bank loans on which tax relief could be claimed. In 1974, the direct index link was removed and instead a regulation index rate was introduced, for the upward adjustment of debts and annual charges (since 1982, this rate has been equivalent to 4.2 per cent).

Figure 2. Sweden: Annual charges of student loans



2. Need for improvement

In the late 1970s and early 1980s inflation in Sweden, as in many other countries, led to a substantial rise in study assistance payments and, as a consequence, to a rapid growth in the debts incurred by newly enrolled students. The percentage of borrowers with debts exceeding Skr.100,000 rose year-by-year. A further factor contributing to the larger debts was that the grant component, as it was not linked to the consumer-price index, came to constitute a gradually diminishing percentage of the total study assistance.

Next there is the issue of graduate salaries. These have not increased in the way foreseen in 1965. Earnings in terms of real value have gone up more for other groups than for university graduates. Earnings are lower in some academic careers than in jobs which require only vocational upper secondary schooling. Many youngsters now seem to regard it as not worthwhile continuing their education and incurring a heavy loan burden, as they do not know whether they will get a better paid job even if they have an academic degree.

Another important factor is that the original idea that the loan programme should not iclude any significant element of subsidization could not be sustained. It is above all the "interest losses" to the State that constitute heavy subsidies. In terms of real value the old system of loans was subsidilized by 45/55 per cent. This fact has not been quite clear to the students.

Repayment has not been a problem for the majority of borrowers as, in most cases, the amount they owe is not very large. The situation is, however, somewhat different for those who have obtained study assistance during the last 10 years. For them, the debts incurred have increased dramatically. A number of professions are not so well paid and repayment has often been onerous for borrowers working in these professions.

During the 1980s criticism was continually being voiced over the size of study debts incurred. Quite a few researchers considered that the reduction in numbers recruited to higher education from the lower socio-economic groups was partly due to the loan system.

In 1986, the Government appointed a Committee to review the study assistance system. The issues to be considered by the committee included: the size of the study assistance; the level of state subsidization and how this should be divided up between direct grants and benefits in connection with repayment (e.g. low interest charges); and whether financing should be via the *National Budget* or the private market. On the basis of the Committee's recommendations, the *Swedish Parliament (Riksdagen)* decided to reform the system.

3. The new programme

In the new programme, which came into force in January 1989, much of the state subsidization has been transferred from repayments to direct grants. The reasons for this change include the following:

- subsidization is more apparent, both to the individual and to society,
- the costs for the State are easier to calculate,

- the larger grant component is expected to have a positive effect on the social composition of those recruited to higher education.

With regard to the level of study assistance, it was emphasized that it should be sufficient to enable students to meet normal living costs during their studies. However, the fact that the loan has to be repaid should also be taken into account and its size better adjusted to the ability to repay.

Changes in the study assistance amount between 1988 and 1989. Nine month Academic Year (in Swedish Kroner, and the equivalent in other currencies)

	Skr.	DM	FRF	£	US$
1988					
Grant	2,180	630	2,100	200	320
Loan	35,250	10,260	34,050	3,300	5,240
Total	37,430	10,890	36,150	3,500	5,560
1989					
Grant	13,950	4,060	13,480	1,300	2,070
Loan	33,480	9,740	32,340	3,130	4,970
Total	47,430	13,800	45,820	4,430	7,040

The total amount has risen by 26 per cent between 1988 and 1989, partly due to the changes in the rules and partly to the increase in the consumer price index.

The grant portion now comprises 30 per cent of the total sum. The loan component is lowered as a consequence of the increase in the grant. The most important change is that the grant will be index linked to inflation and thus, like the total as[illegible]nce, follow the general trend in prices.

Part of the subsidization is [illegible]us transferred from the loan programme to grants. However, this means that the students have to bear a larger share of the real costs of their loans. Instead of the present practice of revaluing debts and charges by a fixed percentage, the borrower will pay an interest which is 50 per cent of the interest charged on Government loans plus a small addition for administration costs. This is normally the cost of other loans after tax reduction.

The period of grace after the completion of studies is cut from 2 - 2 years to 6 months - 1 year. In principle, all those with an income will be obliged to repay their loans. The repayment will be of 4 per cent of the borrower's income. There will be some respite possibilities, but only in exceptional cases. Write off possibilities will be the same as now, that is, the debt will be cancelled in the event of death and when the borrower is 65 years old.

The financing of the loan programme is entirely changed. The old loans were financed through the *National Budget*. From 1989 the money needed for loans will be contracted by the *National Debt Office (Riksgäldskontoret)*. The only expenditure for the State will be interest subsidies and write-off expenses.

4. The attitudes towards loans

It is possible to say that, in Sweden, study loans are accepted as a reasonable way of financing studies in higher education. Nevertheless, past experience shows that the accumulation of very considerable debts is not acceptable, even if the loans are made on favourable terms.

In the current debate, diametrically-opposed views have been expressed on how the problem of financing studies should be solved. Some economists consider that the grant element should be abolished completely and that study assistance should be composed entirely of a loan. In addition they argue that, if students were also allowed a loan to pay for university fees, than both the universities and students would become more cost conscious. Repayments should then be deductable against tax. Other economists argue that study assistance should be solely in the form of a grant "a study wage". In their view, studies should be seen *as a job*. A "study wage", they suggest, would increase the demands set on students and, thereby, improve efficiency in higher education.

Studies and the accompanying incurring of debts, can primarily be regarded as the student investing in his/her own future. This is the view held by the *Centrala Studiemedels Nämnden* (CSN), the national board of student aid, the body responsible for administering study assistance in Sweden. However the CSN also considers that the debts students incur are still too great, despite the considerable improvements introduced this year. In its view, the aim should be for the debts to be of such a size that they can be repaid within a reasonable length of time by borrowers with normal earnings. According to the CSN, it is necessary, therefore, to further increase the grant component at a later stage. The CSN has recommended that half of the total assistance should be made up of a grant. As the repayment system still accomodates some subsidies, an increase in the grant element would not be as expensive in real terms as would appear from the nominal costs. In a situation where society is in greater and greater need of qualified manpower, it is necessary for the study finance system to be designed in such a way that the individual's own financial investment in education is felt to be reasonable.

5. What is the acceptable size of debt?

As previously mentioned, the annual charge for the new loans has been set at 4 per cent of the borrower's income. In the case of students studying for a degree which will lead to a job within one of the comparatively poorly paid professions, it is possible to assume now that many of them will not have time to pay the loan before they are 65. Indeed for some it can be the case that, after they have borrowed a certain amount, further loans will not affect their repayment burden at all.

Two examples of the study debt's growth and repayment are presented below.

Example 1

In this example study assistance is assumed to have been paid out for a period of four years (1989-1992), with an annual increase of 4 per cent. Interest is assumed to be charged at an average of 6 per cent. It is also assumed that the borrower is 28 years old, has a starting salary of Skr.150,000 and that repayments begin in 1994, and average wages rise by 5 per cent per year.

Year	Age	Income Skr.	Repayment Skr.	Debt Skr.
1994	28	150 000	1 000	178 400
2004	38	238 000	8 600	224 000
2014	48	351 500	14 100	245 500
2024	58	572 600	22 900	186 200
2030	64	767 400	30 700	64 300

This example probably assumes a pessimistic picture of wage increases during the period. Nevertheless, the important point it serves to illustrate is that, for someone with a slow growth in earnings, the repayment period is lengthened and the State assumes a greater share of the costs of the loan, in that repayment is postponed and the debts remaining at 65 must be written off.

Example 2

In this example the same amount of study assistance is assumed to have been paid out for the same period as in *Example 1*. Interest is assumed to be charged at an average of 5 per cent. A starting salary of

Skr.200,000 and an average wage rise of 6 per cent per year are assumed, and it is also assumed, as in *Example 1*, that the borrower is 28 years old and starts to repay in 1994.

Year	Age	Income Skr.	Repayment Skr.	Debt Skr.
1994	28	178 600	1 000	170 600
2004	38	318 600	12 740	149 500
2014	48	570 600	22 820	13 840
2015	49	604 800	13 840	0

In this case, the faster rise in earnings means that the study debt is repaid more rapidly than in Example 1, and this also reduces the borrower's total costs.

In a system where repayment is related to the borrower's income some issues are specially important for the State to consider:

- The size of the total loan a student can obtain.
- The upper age limit for entitlement to a loan.
- The proportion of the borrower's income which can reasonably be demanded for repayments.

These factors must be considered with regard to whether the State is prepared to defray some costs in writing off debts or whether the loan conditions are such that, in principle, the debt will always be repaid.

One way to estimate a reasonable level of indebtedness is to take as an example the total repayments required over a period of 20 years, from a graduate with average or slightly below average earnings. The following assumptions can be made for illustration: the first year's salary is Skr.130,000 and it goes up by 6 per cent a year. Interest on the loan is charged at 5 per cent per year. Under these conditions, a debt of Skr.116,000 can be fully repaid in 20 years. However, the maximum size of debt for a study period of 4 years is much higher as is shown in *Examples 1 and 2*.

As mentioned before, the CSN has advocated that half of the total study assistance sum should be made up of a grant. If this principle was in force, it would lead to a situation, where a loan obtained during 4 years of study, could be repaid in 20 years without too great a sacrifice even if the borrower has comparatively low earnings.

V. United Kingdom

The present system of student support was introduced in 1962, following the report of a *Government Committee*, Chaired by Sir Colin Anderson, which recommended a system of student grants, which are subject to a means test.[3] In 1985 the Government began a review of student support, which resulted in the publication of a White Paper in November 1988[4] which proposed the introduction of "top-up loans", to supplement grants and parental contributions to students' living expenses. Legislation was passed in 1990 and the new system of loans will be introduced in October 1990. The following summary gives details of grants in 1989-90 and the new loans to be introduced for the Academic Year 1990-91.

1. The system of awards 1989-90

The system of awards, introduced under the *Education Act 1962*, is administered by *Local Education Authorities (LEAs)*, but their expenditure on student awards is reimbursed by Central Government (the Department of Education and Science in the case of England and Wales and the Scottish Office and Northern Ireland Office in the case of the other countries of the United Kingdom; the arrangements differ slightly in Scotland and Northern Ireland and the following details apply to England and Wales).

3. *Grants to students*. Cmnd. 1051. London : Her Majesty's Stationery Office, 1962.

4. *Top-up loans for students*. Cmnd. 520. London: Her Majesty's Stationery Office. 1988.

Students taking full-time first degree courses at universities, polytechnics and colleges, and those taking other designated courses are entitled to a *mandatory award*. Other students, for example those taking part-time or non-degree courses, may be eligible for a *discretionary grant*. In general, a student is eligible for an award for only one course in higher education, so that those who have already studied for a first degree and those who do not satisfy the normal residence requirement (i.e. have been ordinarily resident in the United Kingdom for the three years prior to beginning higher education are not entitled to a mandatory award.)

Mandatory awards consist of two components: (i) payment of tuition fees, regardless of the level of parental income (ii) a maintenance grant, intended as a contribution towards a student's living expenses; the amount of the grant is dependent on the level of parental income except in the case of students who are financially independent (i.e. who are over 25 or who have supported themselves for at least 3 years prior to beginning a course of higher education).

A *parental contribution* is assessed for all mandatory award holders; this .akes account of the "residual income" of both parents (residual income is defined as the parents' gross income in the preceding financial year less certain deductions, e.g. payments to dependants interest and mortgage payments, pension contributions etc.). Parents are expected to make a contribution to students' living expenses if their residual income is above a fixed limit (£10,600 in 1989-90). The assessed contribution is deducted from the full value of the maintenance grant, and students receive the balance (if any). The effect of this is that in 1989-90 a student whose parents had a residual income of under £10,600 would receive a full maintenance grant, and a student whose parents had a residual income of £24,000 would receive no grant at all.

In 1989-90 the *maximum value* of the maintenance grant for students living away from home was £2,650 in London or £2,155 elsewhere. For students living at home the maximum grant was £1,170.

2. Top-up loans

All full-time home students (i.e. those who are normally resident in the United Kingdom) will be eligible for a loan to help meet their living expenses. These loans will be introduced from October 1990, and will not be means-tested (i.e. no account will be taken of parental or spouse's income, in determining eligibility for a loan).

The *maximum value* of the loan in 1990-91 for students living away from home will be £460 in London or £420 elsewhere. For students living at home the maximum grant will be £330.

The loans will be administered by the *Student Loans Company*, established by the Government to run the loan scheme. Universities, polytechnics and other institutions will be asked to certify that the student is attending a full-time course.

3. Repayment of loans

The repayment terms are as follows:

- The amount to be repaid will be index-linked, i.e., it will be adjusted each year in line with the Retail Price Index, so borrowers will repay the real value of the loan, (in constant price terms).
- There will be a fixed repayment period (initially 5 years or 7 years for those who have borrowed for five years or more).
- Repayment will be by means of fixed monthly instalments.
- Any loan still outstanding will be cancelled after 25 years or when a borrower becomes 50 (whichever is sooner).
- Outstanding loans will be cancelled in the event of death.
- Repayment can be deferred if a borrower's income is less than 85 per cent of national average earnings (£11,500 in 1990). The income of parents or spouse will not be taken into account in determining whether repayment can be deferred.

4. Development of "top-up loans" in the future

The Government intends to increase the amount of the loans available to students, until they represent 50 per cent of the total support (including both grant and parental contribution). This means that the value of the maximum maintenance grant and parental contribution will be frozen, in cash terms, at their 1990 value. With inflation, the real value of the grant and parental contribution will fall, until they represent 50 per cent of the total support and the loan will represent 50 per cent.

VI. United States of America

Students wishing to borrow for post-secondary education obtain their loans primarily through *three* federally-sponsored programmes. Listed in order of annual loan volume, they are:

- *Stafford (formerly Guaranteed Student)* loans -- enacted in 1965.
- *Supplemental Loans to Students (SLS; formerly ALAS)* -- enacted in 1981.
- *Perkins (formerly National Direct Student)* loans -- enacted in 1958.

In addition, the Federal Government sponsors a loan programmes for parents *(PLUS)*; and some states and educational institutions have loan programmes for their residents/students. State and institutional lending is small compared to the three major federal programmes. Neither *PLUS* nor state/institutional programmes will be further described here.

1. General description

Stafford loans are made to graduate and undergraduate students who qualify on the basis of a financial needs test. Borrowers are not required to begin repayment until six months after leaving school; the government pays interest on the borrower's behalf until repayment begins. During repayment, borrowers pay 8 per cent interest during the first four years and 10 per cent thereafter. The government supplements interest payments with a "special allowance" that varies with Treasury Bill rates and increases the total yield to lenders to the 91-day Treasury Bill rate plus 3.25 per cent (adjusted quarterly).

Supplemental Loans to Students (SLS) are intended for undergraduates who are financially independent of their parents. The interest rate is variable and is not subsidized, except that it may never exceed 12 per cent. Borrowers may defer repayment of principal until they leave school; they must, however, either begin paying interest 60 days after the loan is disbursed or (if the lender agrees) capitalize the interest and repay it along with principal repayment.

Banks are the primary lenders in the *Stafford* and *SLS* programmes. To increase liquidity, they may sell student loans to one of several secondary markets, the largest of which is the federally-chartered *Student Loan Marketing Association (Sallie Mae). Stafford* and *SLS* loans are insured against default by state or private non-profit guarantee agencies, which are in turn reinsured in part or in full (depending on their default rates) by the Federal Government.

On 30 September 1988 US$.44.4 billion were outstanding in the *Stafford* and *SLS* programmes, approximately US$.18 billion of which represented loans that had not yet entered repayment.

Perkins loans are made through educational institutions. The interest rate is 5 per cent, and borrowers must qualify on the basis of a financial needs test. Capital is provided by annual contributions from the Federal Government and from funds in institutional revolving accounts that represent repayments of previous loans. Institutions must also contribute capital, equal to at least one-ninth of the federal contribution. Repayment begins six months after the borrower leaves school.

2. Loan limits

Annual and cumulative loan limits vary by programme; in addition, annual loan limits may vary by the educational level of the borrower:

Annual loan limits (in US$)

	Stafford	SLS	Perkins
Annual limit: 1st and 2nd year undergraduate student	2 625		
Annual limit: 3rd year and above undergraduate student	4 000	4 000	varies
Annual limit: graduate student	7 500		
Maximum debt: undergraduate student	17 500		9 000
Maximum debt: graduate student	54 750	20 000	18 000

2. Loan repayment and consolidation

Borrowers typically have from five to ten years to repay *Stafford*, *SLS*, and *Perkins* loans, depending on the amount borrowed. Students who have entered or are about to enter repayment and whose debts from these three and/or several smaller programmes are at least $5,000 may consolidate them into one loan. The interest rate on consolidated loans is a weighted average of the interest rates on the loans being consolidated. The repayment term for consolidated loans may be as long as 25 years, depending on the size of the debt outstanding. *Sallie Mae*, State-guarantee agencies, and lenders may make consolidation loans.

3. Volume of borrowing and average loan levels

Student borrowing in the USA has skyrocketed over the past 15 years, though it has levelled off recently. The size of loans has increased, but the bigger change has been in the number of borrowers. Annual statistics are available on borrowing levels; unfortunately, little good data exist on the total debt being incurred by students.

	1975-76	1980-81	1985-86	1988-89
Stafford				
Number of loans	1 0 million	2.9 million	3.5 million	3.6 million
Total borrowed	$1.3 billion	$6.2 billion	$8.3 billion	$9.2 billion
Average loan	$1,311	$2,135	$2,355	$2,559
SLS				
Number of loans	0	0	0.1 million	0.8 million
Total borrowed	0	0	$0.3 billion	$2.1 billion
Average loan	0	0	$2,641	$2,567
Perkins				
Number of loans	0.7 million	0.8 million	0.7 million	0.8 million
Total borrowed	$0.5 billion	$0.7 billion	$0.7 billion	$0.9 billion
Average loan	$667	$853	$1,003	$1,070

4. Loan defaults

Loan defaults, especially in the *Stafford/SLS* loan programmes, are currently the most contentious issue in American student aid policy. They are soon expected to cost the Federal Government US$.2 billion annually. Default rates are controversial, with different measures yielding different results. Since the programmes' inception, 13 per cent of all dollars lent have gone into default. After collection efforts, nine per cent have remained in default. Default rates vary dramatically by the type of educational institution borrowers attend.

ANNEX B

Financial support for students participating in the *ERASMUS* programme of the European Economic Community

The European Community Action Scheme for the Mobility of University Students (*ERASMUS* is a programme of the European Community designed to increase student mobility between Member States.

As part of the *ERASMUS* programme, mobility grants of a maximum of ECU.5,000 per person per year may be awarded to students who carry out a recognized part of their home degree/diploma in another Member State. (It is estimated that the European Community average grant will be of the order of ECU.2,000 per student per full academic year. However, the grant to individual students may vary significantly from this average).

1. Conditions of eligibility for an ERASMUS grant

• Students must be citizens of one of the EEC Member States (or recognized by one of the Member States as having an official status of refugee or stateless person).

• The sending university must guarantee that **full recognition** of the study abroad period will be given towards the home degree/diploma. This is to be attested formally in writing in advance by the home university. Such recognition may be subsequently withheld if the student fails to reach the required level of attainment in the agreed selection of courses (but failing examinations is not a cause for requesting the student to reimburse his/her *ERASMUS* grant).

• The student **shall not be required to pay tuition fees** (nor fees relating to the use of library or laboratory facilities, or to the right to sit examinations) at the host university; the student may however be required to continue to pay his/her normal tuition fees to the home university during the study period abroad. Insurance fees, student union fees, fees paid for the use of miscellaneous material (photocopies, laboratory products, etc.) are not regarded as tuition fees.

• The national grant/loan to which a student may be entitled for study at his/her home university shall be neither discontinued, nor interrupted, nor reduced while that student is studying in another Member State and is receiving an *ERASMUS* grant.

• Normally, *ERASMUS* grants may not be awarded for periods abroad which last:

(i) less than one term (academic trimester or semester); in no case may a grant be awarded for a period of less than three consecutive months;

(ii) more than one year, in the case of programmes in which the overall period abroad lasts more than one year, the duration of the grant is restricted to 12 months -- *except in the case of programmes with fully integrated curriculum requiring more than one year abroad, where the grant may be renewed.*

• *ERASMUS* grants are not available for students who are in their first year of higher education, except in the case of programmes with fully integrated curriculum requiring that students start the course abroad.

2. *Purpose of grants*

The *ERASMUS* grants are intended to cover the "mobility costs" of students, i.e. the *supplementary* expenses entailed by a study period spent in another Member State, as follows:

- Travel expenses between home and host country.
- Expenses *incurred by the student* linked to linguistic preparation: specific language course enrolment fees payable by the students, living expenses incurred where students have to undergo a linguistic

preparation at the beginning of their stay in another Member State before they can start their studies there. Grants may not be used to cover any costs incurred prior to the attribution of the grant; where *universities* bear costs for the linguistic preparation of their students well in advance of the departure, they should include these costs as part of their request for support in respect of the implementation of a student mobility programme (see Section I.1. above).

- Extra expenses arising from a higher general cost of living index in the host Member State.
- Additional expenses related to the change in the individual material circumstances of students during their stay abroad (such as those which may be incurred, for example, as a result of their no longer benefitting from free or student rate board and lodging in a hall of residence).

3. *Priority to students within an Inter-University Co-operation Programmes (ICPs) of the European University Network*

Within *ERASMUS*, preferential treatment is given to student mobility which is organized within the framework of an *Inter-university co-operation programme (ICP)*; not only may such *ICPs* benefit from financial support to the participating universities, but also their students are given priority in the award of *ERASMUS* student grants.

The teaching staff and student mobility programmes funded through *ERASMUS* together constitute the *European University Network*: their students are therefore often referred to as *Network students*. The list of these "priority" programmes is prepared annually by the Commission and communicated to the various national agencies which are responsible for the administration of *ERASMUS* student grants in the Member States (see paragraph 4 below).

Students who are *"free movers"* (i.e. those who do not participate in an *ICP* of the *European University Network*) may also apply for an *ERASMUS* grant, provided they satisfy all the conditions of eligibility for such grants. In each Member State the availability of *ERASMUS* student grants for "free movers" may, however, depend on the need for support demonstrated by priority students of the Network.

4. *Administration of student grants*

All Member States have designated a *National Grant Awarding Authority (NGAA)* for the administration of *ERASMUS* student grants.

These *NGAAs* administer a global budget earmarked for *ERASMUS* student grants, under a contractual arrangement with the Commission of the European Communities. The *NGAA* in a given Member State is responsible for the award of grants to *students of universities in that Member State* wishing to spend a recognized period of study in another Member State (whether within the framework of an *ICP* or as a "free mover").

The administration of grants may vary in accordance with the arrangements chosen by the authorities of each Member State. *NGAAs* may allocate grants either directly to grant holders, or indirectly via the sending university (the latter procedure being currently the most common pattern).

When awarding *ERASMUS* students grants, the *NGAAs* must observe the priority to be given to "Network students" (see paragraph 3 above). It is also their responsibility to organize the various aspects concerning "free movers" (availability of grants, application regulations and forms, etc.).

The application procedure for student grants therefore differs significantly according to whether the mobility of students is organized within the framework of an ICP ("Network students") or not ("free movers").

ANNEX C

Participants in the Forum

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Educational Forum Series No. 1

The systems of financial support to students in higher education which have been in place for several decades are today coming under scrutiny in many countries -- both industrialized and developing -- and Governments are beginning to demand that students should meet a greater share of the costs of their higher education, either before or after they graduate.

Some countries are actively considering the introduction of loans to students; others are poised to put greater reliance on the loan systems they have been operating in recent years; yet others have rejected the possibility of introducing loans and are looking into the feasibility of introducing special tax schemes for students in higher education.

The subject of student loans has already reached a high point on the educational agenda in several countries and it appears certain that it will receive a great deal of attention in the months ahead. What has been largely missing from the discussion so far, however, is reference in the debate in any particular country to the manner in which other countries are tackling the same problem.

In September 1989 the International Institute for Educational Planning therefore held the first of a series of educational forums devoted to the question of loans to higher education students. This forum specifically examined the situation in Western Europe and the USA (further forums to be organized by the Institute will turn their attention to other regions of the world) and it focused on some of the principal aspects of the subject now being addressed by governments, administrators, academics, parents and students alike.

The author

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