Paying for a degree

The topic of student loans and student debt is back on the agenda. There is wide dissatisfaction with the current system. Students worry that they are asked to pay too much and borrow too much. Universities worry that some course fees do not cover the costs of providing a good education. The public debate worries about access to higher education for students from lower income backgrounds, and about the value of some courses to a person's life chances.

I am a fellow of an Oxford College drawing no salary. The College is a research institution financed from Endowment income. It has no students and no fee income so I am not conflicted or pursuing self interest in this matter.

The case for the student loan system initiated by Labour and extended by the Conservative/Lib Dem Coalition government was straightforward. Going to loans allowed universities to expand and more students to attend. A grant based system implied rationing as there were limits to the amount of state cash allocated to this service. Universities themselves would decide how many places to offer and set entry requirements. The system as a whole would supply money and a place for anyone wanting to go who met a university's standards. The taxpayer was let off paying grants. In some cases lower income taxpayers without the benefit of a degree had to pay more tax to give a grant to someone would go on to earn many times their income, which was generally thought unfair.

The problems of the loan scheme were also well understood. Many students would not repay them, leaving taxpayers with the debt after all. Graduates with a large debt might feel constrained about buying a home or building their own business as they had already borrowed a lot. Some people would be put off going to university, not liking the idea of starting adult life with a big debt.

There were attempted fixes for some of these problems. People from lower income backgrounds can apply for access funds or scholarships, so they can borrow less and still pay the bills. In an attempt to cut taxpayer costs from non repayers the interest charge was set high. The successful and honest ex students are asked to pay more to cover some of the costs of those who never earn enough to repay or of those who leave the country to try to walk away from their debt.

Reform is the air, with both Labour and Conservative wanting to move to lower fees or no fees. Replacing the whole system with grants would be very expensive and raises the issue of state rationing again. Cutting the maximum fee will curtail universities and militate against more dearer courses in science which require expensive facilities and more intensive teaching.

Offering more scholarships to lower income students might be a better way forward, with scope for government and universities to negotiate over how many and who pays. Universities do provide access funds, and many are building endowments with independent financial capacity to help students.

The provision of university places is not a proper market. There is a fee cap, which means they all tend to charge the same maximum permitted, whilst there does have to be a system of rejecting some who want the service but are not qualified to benefit. Just as under the state financed system that went before, there is a market for talent where the brighest and best qualified tend to go to the universities that come out highest in league tables, thereby reinforcing their positions.

Inflation, money policy and wages

Yesterday came the expected good news that headline inflation is below the 2% target. Core inflation has been below target since June 2018. Meanwhile wage growth is around 3%, so real wages are now rising. People can look forward to having more to spend as their pay goes up.

The Bank of England has been changing its mind about all this. In a past good lecture the Governor argued that there is no longer a simple trade off between lower unemployment and higher inflation. The so called Phillips curve suggested that if unemployment fell wages started to go up faster, leading to price inflation and the need for the authorities to rein things in. Revision to this pointed out that in a modern open trading economy like the UK prices are held down by global competition, and wages by inflows of migrants and by importing labour intensive goods and services from lower wage countries. In his most recent speech the Governor has rowed back a bit on this sensible observation. He claims that there is once again a modest trade off between lower unemployment and higher wages, and that therefore the Bank will need to tighten further to control prices in the months ahead.

I do not agree. It is true wages have been going up faster in the last year, but there is no evidence this is flowing through to prices which remain under the cosh of global competition. In part wages have gone up through the introduction of the Living Wage, in part through cost push pressures in areas of the economy like care homes where recruitment has been difficult. The danger is lifting interest rates too far too fast will plunge us into a downturn. There is too little money and credit about as it is, given the Bank’s tightening policy. The Governor does at least acknowledged that he has deliberately tightened policy over the last year.
It is time he said job done. The Fed has been more magnanimous in saying they have tightened enough. The Bank of England should also say this more clearly, and work to ensure a decent supply of credit to households and businesses. As The Governor argued convincingly there is no debt problem in either the public or banking sectors in the UK. With China slowing and the Eurozone stalling we need a positive policy in the UK. With inflation under target now

is a good time to promote growth and allow people to buy more cars and invest more in property and business.

More new shops for Wokingham centre

I was pleased to hear the news that Cook, The Blue Orchid Bakery and Tearoom, the record and music shop Beyond the download, Sit and Sip a craft beer company and the leafy Elephant gin bar are all signing up for the new central Wokingham development.
They are all very welcome and will add variety and interest to Wokingham’s offer of shopping, food and drink. They will help attract more people to the new town centre, and will add to the enjoyment of visits.

The Bank of England forecasts a modestly faster rate of growth for 2021-22

The latest Inflation Report from the Bank expects Uk growth to improve in the second half of its three year forecast period from now, reaching a bit above 2% after a period at lower levels. The Bank thinks supply and demand is currently in balance in the Uk economy, that it will slow a bit this year leading to a small amount of surplus capacity, followed by a tightening.

As the Governor himself has explained in a past lecture, this concept of domestic capacity has its limitations as a way of estimating what will happen next to prices. Given the open nature of the UK economy, capable of importing goods and services from around the world that are in short supply at home, a lack of capacity does not automatically translate into higher prices. Given the enthusiasm of UK companies to welcome employees from overseas there is also a countervailing pressure on wages as the local jobs market tightens up through substantial job creation. Despite this the Bank thinks it will need to toughen monetary policy as they approach the second half of the forecast period, which will in itself slow things a bit.

The Bank’s figures show that the UK this decade has grown faster than the Eurozone, and the Bank sees the sharp slowdown in Eurozone growth in the second half of last year as a factor slowing our economy. They recognise that the bigger slowdown in residential property prices in London resulted from being “disproportionately affected by regulatory and tax changes” often commented on here. The by to let and Stamp Duty tax changes hit turnover and prices of the expensive London properties. They see a modest slowdown in the world economy as a whole, and do not see any major inflationary threat in global markets.

They mention Brexit frequently, saying they might respond either way depending on when and how it occurs. There is no sign of a recession in either their world or their UK forecast, though they acknowledge the recessions now stalking some of the continental countries. It would be good to have more analysis of why this is happening in the Euro area and what knock on effects it will have on our exporters. They remind us that the European single currency area accounts for 38% of our current exports. Presumably the slowdown or recessions in continental countries could mean some favourable downward pressure on our import prices, where we import many more goods and food than we export to them.

The UK economy has held up well at a time of negative growth in Italy and Germany and slowdown in France. This has happened against a background of UK policies that have led to a large reduction in new car sales, and a slowdown in housing transactions. Buy to let investment by individuals has been reduced substantially by tax rises, and new car sales hit by policies against diesels along with higher VED particularly for dearer cars.

The world economic slowdown

The Central Banks of the USA, Euro area, UK and China have all been slowing the economies they regulate. The US economy has done the best, as the Fed has allowed substantial credit growth in the private sector to offset some of the impact of rate rises and the reduction of Quantitative easing money and repayment of bonds. As a result the US economy which started to grow at more than 3% may manage more than 2% this year. The impact of the tax cuts and fiscal stimulus administered by the government is helping.

The Bank of England has been the toughest, cutting money growth considerably, reining in car loans and consumer credit, putting through two rate rises and ceasing all Quantitative Easing. The European Central Bank has been the softest, continuing with large amounts of money creation and bond buying up to the end of last year, and flagging no rate rises for the foreseeable future. Their current interest rate of 0% is lenient.

Despite this the Euro area economy is slowing the most. Italy is in recession, reporting reductions in output in both the third and fourth quarters last year. Germany had a down quarter in the autumn and may have had another down quarter to December 31. Greek and Cypriot output remains miles below the 2007 levels, with Italian GDP also still lower than pre crisis in real terms. French growth is slowing markedly and the whole Eurozone is back in stagnation. The UK is managing slower growth, which shows underlying strength given the squeeze being administered by both the Bank and the Treasury.

China has seen a small slowdown in growth on the official figures, with reports of a sharper slowdown for manufacturing and imports. Chinese money policy has also been more restrictive than in the past, with the authorities now signalling they wish to relax a bit to avoid more damage to growth.

It is difficult to see what the Eurozone can and will do to lift things. It is a poor background for the traditional parties fighting the European elections in May, but it is the result of the disciplines of the Eurozone. All the time the Germans and the other richer surplus countries decline to send more grants and cash to the poorer parts, it reinforces the need to squeeze budgets to keep finances in control. This in turn leads to slower or no growth, which in turn means less tax revenue and a bigger budget squeeze.

The Euro, just like the Exchange Rate Mechanism it replaced, is a recession machine for the weaker economies. That is why the Italian government tried to get a different budget, and one of the reasons why populist parties around the continent are making progress electorally.