

[Isn't it wonderful how student loans are starting to actually work?](#)

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Written by [Tim Worstall](#) [2] | Sunday 29 December 2013



I thought this was an amusing little complaint from some recent student. They seem to have rather missed the entire point of having student loans to pay the tuition fees in [the first place](#) [3]:

I see friends of mine recently out of university struggling to find graduate schemes, permanent jobs or anything beyond zero-hour contracts. My degree has been vital to my job, but it saddens me to say that, were I 18 again, I wouldn't choose the subject about which I felt passionate? I'd make my choice based on job opportunities and pay.

What amuses me about this is that of course this is the very reason that the system was changed.

There was indeed a time when it didn't matter all that much which subject you did at university. And it was also at that time that you not only didn't have to borrow to pay the fees, you got a government grant to support you while there. But the other side of that system was that only 10% of the age cohort went. Thus a degree was indeed a signifier of having some brains to get in and further, the persistence to then graduate as well.

Now we have near 50% of the age cohort going. And thus the simple possession of a degree is not going to be a useful signifier to future employers. And it's also true that with 50% going it's not going to be the taxpayer that picks up the entire bill. Which leads us to our system of loans to pay the fees. And look at what then happens as a result of that.

Students start to think about where the pay will be good after they graduate. Good pay for any particular job of course being a signal that there is a (relative) lack of people both qualified to and willing to do that job. So by making the students responsible for their own costs (in however subsidised and dilatory manner those loans are collected) we have actually provided them with the incentives to study something that is of use to the rest of us.

Isn't it wonderful, introduce market signals into the university system and we get people preferentially studying for those careers where we've a shortage of good people? My word, quite remarkable, markets and incentives work.

One more thing we might note: there have indeed been some governmental actions over recent decades that can be said to have worked just as this one has. They're always when the government decides to bring in more of those market incentives and price signals though. There might be a more general lesson in that somewhere....

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