



Prime Minister (2)

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Education

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 February 1982

The Rt. Hon. Sir Keith Joseph Bt MP
Secretary of State for Education and
Science

STUDENT LOANS

Thank you for your letter of ~~22~~ January.

I start with an inclination in favour of the principle of loans for students instead of grants and I am pleased to see that in looking again at the possibilities you have abandoned a number of the elements of the package put to H Committee last March which would have added so substantially to public expenditure in the short-term.

But the issues involved are complex and, as you say, your proposals are tentative. I do not want to comment in detail here on your outline scheme, but the level of subsidy implied - through the guarantee, preferential interest rates, deferred repayments and so on - looks very high for a scheme designed in part to allow students to come to informed judgements about the value of education as compared with its cost. A subsidised rate of interest could also have implications for monetary demand which we would need to consider carefully.

I think we need to carry consideration of the implications of the scheme you envisage much further forward before a new approach is made to the banks. They gave Government their preliminary reactions to the concept of a loan scheme last year and would expect our ideas to be reasonably firm before we went back to them. We need at least to enter discussions knowing which are the conditions on which we are prepared to compromise and which are not negotiable.

I suggest therefore that your officials get in touch with mine to examine these questions before further soundings are taken with the banks.

GEOFFREY HOWE