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WEALTHY GRADUATES: THE WINNERS FROM CORBYN'S TUITION FEES PLAN



Image Credit: iStock/hatman12

- Since the £9,000 cap, the participation rate of disadvantaged 19-year olds in higher education has increased by 4.8 percentage points.
- Eliminating tuition fees and “dealing” with existing debts would be highly regressive, asking non-graduates to subsidise graduates who on average earn £9,500 p.a more.
- Scotland, which charges Scottish and EU students no fees, is bad for social mobility. Its advantaged to disadvantaged entry ratio is 3.5 compared to England’s 2.4.



- **Introducing a ceiling on fees has caused problems. Most universities are charging the ceiling, meaning there is no link between tuition fees and job prospects.**
- **Ministers should avoid retrospective measures that increase repayments for graduates, incentivise courses that link to areas with labour shortages and could examine whether interest rates on loans should be reduced.**
- **There is a need to redress intergenerational fairness, but abolishing tuition fees simply redistributes resources between lower earning non-graduates and higher earning graduates.**

1. INTRODUCTION

The general election result in June of this year – where the Conservatives lost in every age group up to 47 – has led to calls for a wholesale re-think in Government policy towards intergenerational fairness. There is no doubt that significant intergenerational unfairness has been observed in many areas in the UK, including the younger generation’s struggle to get onto the housing ladder and welfare reform being almost entirely focused on the working age population while pensioners receive a triple-lock on their pensions.

However, the most notable pledge made in relation to this issue during the election campaign was Corbyn’s proposal to scrap tuition fees, re-introduce maintenance grants and “deal with” existing student debts. You would think that such a policy was the preserve of the radical Left. Not so. The Blairite’s original standard bearer of the tuition fees policy is now fully signed up to eliminating tuition fees altogether. Just a few weeks ago, Andrew Adonis claimed that “*fees have now become so politically diseased, they should be abolished entirely*”.

Nervousness among Government Ministers about the tuition fee policy has become evident for all to see. Damian Green MP, now Deputy Prime Minister, has called for a “national debate” on the issue, which will no doubt emerge over the coming years. So, how should the Government respond to this growing pressure for university tuition fees to be scrapped?

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2. HAVE TUITION FEES BEEN REGRESSIVE FOR SOCIAL MOBILITY?

In 2012-13 the Institute of Fiscal Studies analysed the distributional impact of the reforms to higher education, which included the introduction of the new system that capped tuition fees at £9,000. Against conventional wisdom, the report argued that the new funding regime is more progressive than its predecessor, with the poorest 29 per cent of graduates being better off.

Evidence since the introduction of the £9,000 fee cap suggests that there has been no negative impact on the participation of disadvantaged youngsters in higher education. In fact, there has been a marked increase in the proportion of disadvantaged attending university. Since 2012-13, the participation rate of the most disadvantaged 19-year olds has increased by 4.8 percentage points, whereas the most advantaged has only increased by 2.4 percentage points over the same period.

Table 1: Widening participation in higher education – Progression by age 19 [UCAS entry rates]

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Disadvantaged	17.1%	18.6%	19.7%	20.7%	21.2%	22.2%	23.9%	25.3%	26%
Advantaged	55.9%	57.2%	57.8%	57.5%	57%	56.2%	57.7%	59.8%	59.4%
Gap (pp)	38.8	38.6	38.1	36.8	35.8	34	33.8	34.5	33.4

Source: Department for Education [link](#) [link](#)

Notes: There are various measures that examine participation rates of youngsters from disadvantaged backgrounds. All measures show an improvement in participation since 2012-13 (see Full Fact [link](#))

It is also very notable that the social mobility outcomes in Scotland are far more regressive than in England. Scottish Universities do not charge Scottish and EU students tuition fees, but this can only be achieved by the Scottish Government capping the number of places allocated to Scottish and EU students. An [Audit Scotland report](#) last year found that the cap has not kept pace with increasing applications. This, in part, has led to fewer opportunities to attend university, which appears to be having a detrimental impact on social mobility. Scotland's ratio of advantaged to disadvantaged entry rates stands at 3.5, while the same ratio is only 2.4 in England (see Table 2 and Figure 1).

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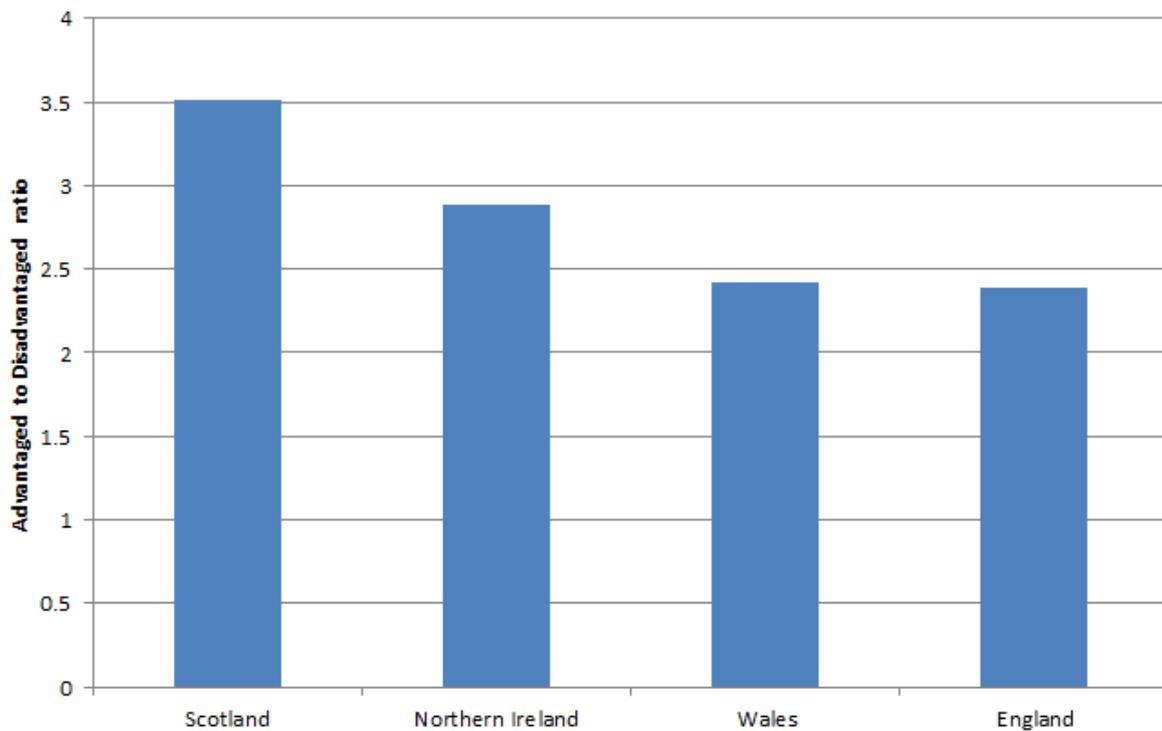


Table 2: Application (January, 2016) and entry (2016) rates at age 18, for the most disadvantaged and the least disadvantaged

	Application rates (Jan 2016)			Entry rates (2016)		
	Average	Q1	Q5	Average	Q1	Q5
England	37.0%	22.0%	52.0%	31.0%	19.5%	46.5%
Northern Ireland	48.0%	24.0%	62.0%	34.0%	16.0%	46.2%
Scotland	33.0%	16.0%	46.0%	25.0%	10.7%	37.6%
Wales	32.0%	20.0%	50.0%	28.0%	18.2%	44.0%
Scotland as % of England	89.0%	72.0%	88.0%	78.0%	56.0%	82.0%

Source: UCAS [link](#)

Figure 1: Ratio of most advantaged to most disadvantaged student entry rates at university (2016)



Source: UCAS [link](#)

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3. THE CURRENT SYSTEM ALREADY INVOLVES TAXPAYER SUBSIDY

It is estimated that the average student graduating from an English University owes an average of £44,000, according to Social Mobility Charity. This debt is, however, effectively risk free and backed up by the taxpayer, with any remaining debts being eliminated 30 years after graduation. The system of payback is also highly progressive, with graduates paying according to their earnings.

Estimates of the overall taxpayer subsidy are hard to pinpoint exactly. The Government assumes that 35-40% of outstanding loans will never be repaid, while the Institute for Fiscal Studies estimates that, for each £1 loaned out to cover costs of tuition and maintenance, the long-run cost to the government is 43.4p. This means that the average loan subsidy per student amounts to just over £17,000, and the lowest-earning graduates receive the lion's share of this subsidy. For example, the lowest-earning 10% of graduates receive a subsidy of 93% (£36,481 on average).

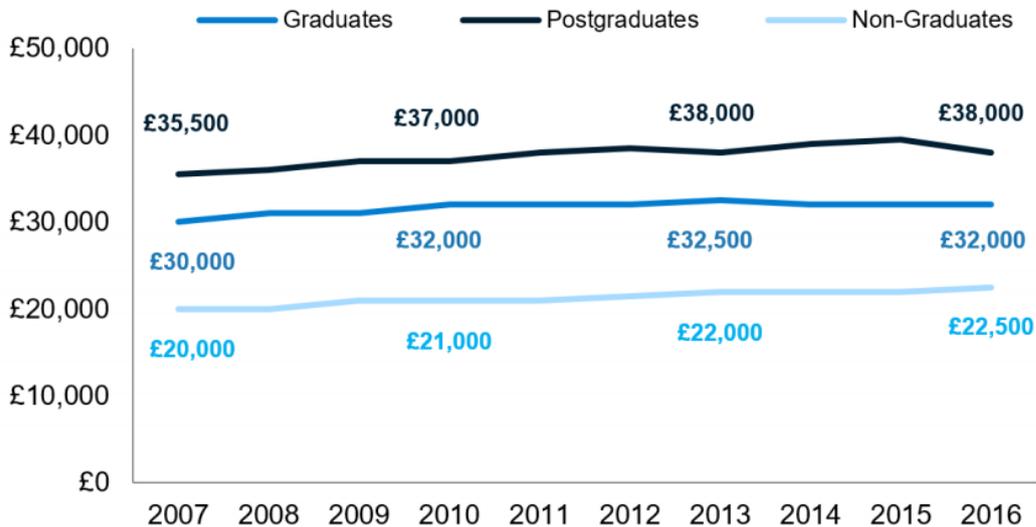
A degree is of benefit to both the holder and society as a whole. The current tuition fees system apportions responsibility to the individual but the taxpayer also plays a role by effectively underwriting some of the debts incurred by non-high earning graduates. Corbyn's proposal would change this mix by apportioning the responsibility exclusively to the taxpayer at a cost of £11.1 billion a year.

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4. THREE WAYS THAT LABOUR'S POLICY IS REGRESSIVE

Figure 2: Annual median salaries for the working age population (2007-2016)



Source: Department for Education [link](#)

Obtaining a degree is, of course, a benefit to the country as a whole, through the promotion of higher economic growth rates and the improved health of society. However, there is also an indisputable financial benefit to the individual from attending university. University undergraduates, on average, earn £9,500 more a year than non-graduates, rising to a £15,500 per year premium for postgraduates (see Figure 2).

Jeremy Corbyn is effectively proposing to shift the burden of higher education almost wholly onto the taxpayer and away from the individual. This makes Jeremy Corbyn's proposals on tuition fees a regressive policy in three key ways:

- 1) Corbyn's proposal to remove tuition fees for those attending university and ask the taxpayer to pay instead is, in effect, a subsidy from the less wealthy to the wealthier. The impact on the taxpayer would be significant. For example, the money Labour planned to spend on repealing university tuition fees and introducing maintenance grants is equivalent to nearly 2.8 percentage points on the basic rate of income tax.¹
- 2) There has been some dispute about Corbyn's pledge on existing debts incurred by students. An initial pledge to "deal with" the issues has been subsequently

¹ A change in the basic rate of income tax by 1p costs adds £4.050bn to the Exchequer (Source: HM Treasury – Direct effects of illustrative tax changes [link](#)).

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watered down to be an “ambition”. What is indisputable, however, is that Corbyn’s pledge to “deal with it” implied that some resources would be used to alleviate existing debts. Again, this would be an additional taxpayer subsidy that would involve transferring resources from less wealthy non-graduates to more prosperous graduates.

- 3) Scotland, where there are no tuition fees, has a system whereby a lower proportion of disadvantaged students go to university. If fees were to be abolished in England, this could lead to more rationing of university places and could have a detrimental impact on the participation of disadvantaged youngsters in Higher Education.

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5. ISSUES WITH THE TUITION FEE SYSTEM

The new system of tuition fees has undeniable advantages. Resources available to universities for teaching have increased, given that the increase in tuition fees has outweighed the reduction in teaching grants. More than an additional £6,000 per student has come about, according to the Institute of Fiscal Studies. Moreover, the system seems to be further promoting social mobility, with the access of disadvantaged youngsters seeing a marked increase. Yet there are some obvious flaws in the system. These include:

A lack of price competition

The Browne Review advocated a system that would allow universities to set different charges to promote competition in the Higher Education sector. To guard from institutions charging fees that did not match employment returns, the review proposed to introduce a levy on the income from charges above £6,000, which would cover the costs to the Government of providing students with the upfront finance (see Table 3).

Table 3: Proposals in the Browne Review

AMOUNT OF THE LEVY AT DIFFERENT FEE LEVELS							
Nominal fee up to /£	6,000	7,000	8,000	9,000	10,000	11,000	12,000
Levy per additional £1,000	-	40%	45%	50%	55%	65%	75%
Proportion of total received by institution	100%	94%	89%	85%	81%	77%	73%

Source: *Browne Review* [link](#)

This proposal was not taken forward, however. Instead, an overall cap of £9,000 was put in place. As a consequence of implementing the cap, price competition is effectively non-existent. Most universities charge the full £9,000 with the average charge being marginally lower (£8,647), according to the Institute of Economic Affairs. Among other things, almost all universities are charging fees at the price ceiling as no institution wishes to appear inferior.

This has led to a fundamental unfairness. As James Kirkup has commented in the Daily Telegraph, students at the poorest universities are paying the same for their degree as those at the best, even though that degree is, in financial terms, worth less. There is therefore no link between the cost of tuition and employment returns, which was envisaged in the Browne Review.

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Retrospective measures

The student fees system means that a graduate pays back 9% of everything earned above £21,000. When changes to student finance were announced in 2012, it was repeatedly stated by the Government that this threshold would rise in line with average earnings in April 2017. This has now been delayed until at least April 2021, which acts effectively as a retrospective hike in monthly repayments for most graduates.

High interest rates

The Interest rates on a student loan are worked out in the following way. While studying, the debt acquires interest at a rate of the Retail Price Index (RPI) + 3%. Then, after studying:

- A graduate accrues interest at RPI inflation if they earn under £21,000.
- The interest rate will gradually rise from RPI to RPI + 3% as you go from £21,000 to £41,000.
- Once a graduate earns more than £41,000, the loan accrues interest at RPI + 3%.

Shortages in certain sectors

This has been particularly notable in recruitment for NHS staff. For example, it has been claimed that the removal of some NHS bursaries has contributed to a fall of 23% in nursing and midwifery courses. This could lead to staff shortages in the NHS.

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6. CONCLUSION

There are certainly areas where changes could be made to the tuition fee system. If there are pressing staff shortages in certain areas, the Government can incentivise applications by reducing or removing fees for relevant courses. This would be a rational response to market forces. It is also regrettable to introduce retrospective measures such as the deferral of the increase in the £21,000 payback threshold. This will only serve to undermine confidence in the system.

At the moment, interest rates are above market rates, meaning that higher paid graduates are effectively offering huge subsidies to lower paid graduates. The burden of subsidising lower paid graduates could, perhaps, be more fairly shared between higher paid graduates and the taxpayer more broadly. This could be achieved by moving interest rates closer to the level of RPI.

The lack of price competition among universities is a major issue. The Browne Review would have probably been a better system by potentially incentivising universities to charge fees that would link more closely to job prospects. However, it will understandably be difficult, near impossible, to implement such reforms given the current political environment.

Abandoning tuition fees altogether, as proposed by Jeremy Corbyn's Labour Party, would be hugely irresponsible. It would effectively act as a subsidy from comparatively less wealthy non-graduates to graduates, and would be implemented at a time when the UK Government is still living well beyond its means.

There is a need to redress intergenerational fairness, but the abolition of tuition fees would simply redistribute resources between non-graduates and graduates. Reform of housing policy and more equitable welfare reform between the older and younger generations would be a more effective and fiscally responsible way of introducing intergenerational fairness.

Daniel Mahoney

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