Higher education funding policy: who wins and who loses?

A report published today by the Institute for Fiscal Studies compares the university funding policies of Labour, the Conservatives, and the Liberal Democrats. These policies have important implications for students, graduates, universities and taxpayers. Our report finds:

1. The winners from all three parties’ funding plans are:
   - Universities: all three parties promise to increase university funding, raising per-student funds by up to 30% in real terms for new students from 2006-07.
   - Students: new grants, and in some cases bigger loans for maintenance, mean that support for living costs for students rises under all three parties. Grants are highest under Labour, and lowest under the Conservatives.

2. Who pays for the gains differs between the parties:
   - Under both the Conservatives and Labour, the bill is shared between graduates and taxpayers:
     - Under Labour’s plans, taxpayers pay around £1.3 billion more to fund new student fee loans and new grants of up to £2,700 per year. Graduates pay £1.3 billion extra (after subsidies) in deferred top-up fees.
     - Under the Conservatives’ plans, taxpayers pay an extra £1.1 billion to introduce grants of up to £1,500 per year and to abolish tuition fees. Graduates also pay around £1 billion more, giving up their entitlement to free loans, and instead paying market interest rates to private banks for their student debt.
   - Under the Liberal Democrats, taxpayers foot the whole bill, at an additional cost to the Exchequer of around £2.2 billion per year. This allows them to provide grants to the poorest students of up to £2,000 per year, and to abolish tuition fees completely.
   - If universities require bigger increases in funding per student in the future, or if student numbers increase, this will be paid for entirely by taxpayers under the Conservatives and the Liberal Democrats, but could be shared between taxpayers and graduates under Labour.

3. Student debt would vary under different systems:
   - Projected student debt levels are set out in Table 1. These amounts provide students with a better standard of living compared to their counterparts today, but are still short of the NUS cost of living estimate of £6,890 per year. 1

<table>
<thead>
<tr>
<th></th>
<th>Labour</th>
<th>Conservative</th>
<th>Liberal Democrats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students with lowest family incomes</td>
<td>£19,340</td>
<td>£16,230</td>
<td>£12,340</td>
</tr>
<tr>
<td>Students with highest family income</td>
<td>£18,670</td>
<td>£10,730</td>
<td>£9,250</td>
</tr>
</tbody>
</table>

1. Table 1 Total debt levels required to provide students with the same standard of living under all three systems (based on three year degree outside London, living away from home)
4. The parties’ policies have a wide distribution of impacts for graduates. Our report considers these fully, using innovative statistical techniques - that have never before been applied to UK earnings data - to estimate the full distribution of future lifetime earnings paths for UK graduates. We find that:

- The median of the lifetime earnings distribution for male graduates is around £325,000 higher than the equivalent figure for male non-graduates. For females the median lifetime earnings advantage of graduates over non-graduates is around £430,000. However, having a lifetime earnings advantage by virtue of being a graduate, is by no means a sure thing - some graduates will end up earning less than non-graduates over their lifetimes. For example, whereas 15% of male graduates will earn less than £900,000 over their lifetimes, 18% of male non-graduates will earn more than this amount.

- Under all three systems, graduates would be required to pay back their loans at a rate of 9% of earnings above a threshold of £13,925. This means that while they are repaying, the burden of repayments on graduates is the same across all three systems. However the length of time graduates take to repay their debt, and the level of the taxpayer subsidy, will vary across the different funding schemes, and according to lifetime incomes.

- Under the Labour policy, we estimate that the average taxpayer subsidy on loans ranges from 27.4% to 29.1% for males and from 41.2% to 45.7% for females, depending on debt at graduation. Under the Liberal Democrat policy, the corresponding numbers are 21.0% to 23.3% for males and 26.3% to 30.9% for females. There are no taxpayer subsidies on the loans under the Conservatives’ policy.

- Graduates with low lifetime earnings, and females who take long breaks from the labour market, would benefit most from taxpayer subsidies (under Labour and the Liberal Democrats), and would see a considerable proportion of their debt written off after 25 years under all three parties. Graduates with high lifetime earnings would, by contrast, receive the lowest taxpayer subsidies, and would see relatively little debt written off after 25 years under any party.

- To achieve the same standard of living while at university, graduates under the Liberal Democrats’ scheme would on average take less time to repay their debts than under Labour or the Conservatives. This is because:
  - Debt on graduation would be lower under the Liberal Democrats compared to Labour, since there would be no need to borrow for fees.
  - The positive real interest rate charged by banks under the Conservatives (up to 5.5%) would mean that the outstanding value of debt would go down by less each year as repayments were made than in the Liberal Democrat system, where the real rate of interest would be zero. Indeed outstanding debt could go up under the Conservatives for low earners, even as they repay.

- Comparing Labour’s system to the Conservatives:
  - Graduates from the poorest family backgrounds would on average make repayments for longer under the Conservatives than the Labour system, despite having lower levels of initial debt. This is because lower initial debt under the Conservatives would be offset by a higher real interest rate charged.
  - By contrast, graduates from the wealthiest family backgrounds would on average repay their debts earlier under the Conservative than the Labour system. This is because even though interest is accumulating on debt under the Conservative system, the relatively lower initial debt level compared to Labour more than offsets the effects of the relatively higher interest rate.

- Banks may struggle to offer a viable interest rate under the Conservative scheme, since they would be required to write off any outstanding debt after 25 years. It would be a real risk under the Conservative system that the type of students who take out the maximum loans would be those who would be less likely to be able to
fully repay them. This is not a problem in the Labour or Liberal Democrat system as all students have the incentive to take out the maximum loan.

ENDS

Notes to editors:

1. For students undertaking three year courses living away from home, outside London. Labour estimates assume debt covers tuition fees of £3,000 per year.

2. ‘Higher education funding policy: who wins and who loses? A comprehensive guide to the current debate’ by Lorraine Dearden, Emla Fitzsimons, Alissa Goodman and Greg Kaplan, is published by the Institute for Fiscal Studies on Friday 18th March. It is available online only from www.ifs.org.uk/comms/comm98.pdf

3. A briefing to launch the report will be held on Friday 18th March at 10am. If you would like to attend, please contact Bonnie Brimstone on 020 7291 4800 or bonnie_b@ifs.org.uk.