Time's up:

why the Lib Dems should end their opposition to tuition fees

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Introduction

The Liberal Democrats stand alone among the three main political parties in the UK in promising to abolish university tuition fees. They do so in the hope that making tuition 'free' will draw more students from low income families into the higher education (HE) system.[1]

This superficially attractive proposition ignores two important facts, however.

First, there is no such thing as free tuition – someone, somewhere has to pay, and under the Liberal Democrat plan that 'someone' is the taxpayer. And since most taxpayers are non-graduates with relatively low lifetime earnings, the policy involves a significant redistribution of resources from poor to rich.

Second, the abolition of fees will do almost nothing to get more poor students into university as the Liberal Democrats claim. Why? Because the gap between the HE participation rates of rich and poor students was neither created nor worsened by the introduction of tuition fees – indeed research suggests that the gap actually narrowed slightly in the years after fees were introduced in 1998.[2] The real reason students from low income families are not going to university in greater numbers is that too few are achieving the exam results they need to apply. This fact is borne out by a recent study showing that, although the poorest 20 per cent of students are six times less likely to go to university than the richest 20 per cent, there is almost no difference between the participation rates of poor and rich students with the same 'A' Level results.[3]

The Liberal Democrat policy on fees is therefore both regressive and ineffective. If the party is serious about widening participation in higher education, it should take most of the £2 billion it would cost to abolish fees at the time of the next election, and use it to raise the attainment levels of deprived school pupils instead. It could begin to do this by increasing its planned investment in the 'Pupil Premium' – an innovative system of deprivation funding designed specifically to improve educational outcomes for disadvantaged children.

1 This is the justification cited most often by party spokesmen. For this reason, this paper focuses almost exclusively on the issue of access to higher education. For an analysis of the wider issues, including the impact of tuition fees on universities themselves, see J Astle, 'Open universities: a funding strategy for higher education', CentreForum, 2006.

2 D Raffe et al, 'Social class inequalities in education in England and Scotland', Special CES Briefing no. 40, Centre for Educational Sociology, 2006.

3 H Chowdry et al, 'Widening participation in higher education: using linked administrative data', Institute for Fiscal Studies, 2008.

The history and workings of the current fee regime

Tuition fees were first introduced in 1998 at a flat rate of £1,000 per year, payable at the start of each academic year by all students from families with an income over £34,000 per year. Students whose families earned less than £18,000 per year were exempt, while those whose incomes fell between these two levels paid fees that increased on a sliding scale from zero to £1,000. Maintenance costs were covered by means tested income contingent loans. The government also increased the size of maintenance loans by £1,000 to offset the tuition fee.

In 2006, a new (and vastly improved) system was introduced that once again made university tuition free at the point of use. This system requires all students to pay tuition fees, but allows them to do so on a deferred basis by taking out a subsidised loan of equivalent value to cover the cost. Tuition fees can vary from institution to institution and from course to course but have been capped at £3,000 per year until at least 2010. All students are eligible for a second income contingent loan to cover maintenance costs, although the size of the maintenance loan varies depending on parental income. The maximum amount that can be borrowed to cover living expenses is £4,600.

Like an income tax supplement, loan repayments are fixed at a rate of 9 per cent on all earnings above £15,000. Any graduate with earnings below that level pays nothing. A 0 per cent real interest rate applies to both fee and maintenance loans to prevent debts from growing over time. Any outstanding debt not repaid after 25 years is written off.

Alongside these loans, means tested non-repayable grants of £2,700 were made available to students with a family income below £15,970. This grant tapered to £1,200 at family income of £22,100 and to zero at £33,560. 23 per cent of HE students were eligible for the full grant in 2006. These grants had to be supplemented by a university funded, non-repayable bursary of at least £300 per year if the full £3,000 tuition fee was charged.

In the summer of 2007, in one of his first acts as prime minister, Gordon Brown announced that grants would be extended to students further up the income scale from the start of the 2008/09 academic year. Today, the maximum amount each individual can receive remains at £2,700 but is available to all students with family incomes below £25,000 (up from £15,970). Every student with a family income below £60,010 is now eligible for some grant support, where previously that support was withdrawn at £33,560.[4] In addition, all graduates were given the option of a five year loan repayment holiday to be taken at a time of their choosing, while the interest subsidy and debt write-off provisions were left unaltered.

4 The government has announced that this upper threshold will be lowered to £50,020 for students entering university at the start of the 2009/10 academic year. For details, see: www.dius.gov.uk/speeches/denham_ministerial_statement_291008.html.

1. Liberal Democrat opposition to tuition fees

The Liberal Democrats have campaigned for the abolition of tuition fees since the government first introduced them in 1998. In the party's 2001 general election manifesto, when the fee was £1,000 and a third of all students were exempt, the net cost to the Exchequer of abolishing fees and introducing the party's other student support policies was estimated to be £280 million per year. By 2005, with higher, variable rate fees about to come on stream, the cost had reached £1.2 billion.

The Liberal Democrats' figures mask the fact that the gross cost of abolishing fees (i.e. the cost of replacing universities' fee income with public funds) in 2005 was estimated to be £2.3 billion. But since the abolition of tuition fees would obviate the need for fee loans, the Liberal Democrats would have been able to save £800 million of fee subsidies. They planned to save another £300 million by cutting the maximum grant from £2,700 to £2,000, and by tapering it to zero for students with a family income of £22,100 (compared to £33,560 under Labour).

Importantly, the extra £1.2 billion the Liberal Democrats planned to spend was to come entirely from the proceeds of their proposed 50p top rate of income tax for those earning above £100,000.

Three things have since changed, however.

First, the party has abandoned its plan for a 50p income tax rate, with the result that the cost of abolishing fees would now fall on all taxpayers, the majority of whom are non-graduates on relatively modest incomes.

Second, the cost of abolishing fees has continued to rise as student numbers and average fee levels have increased. By 2010, the gross cost of abolishing fees is projected to reach £3 billion – £700 million more than in 2005.[5]

And third, the British economy is now contracting, with family budgets – like

5 Bill Rammell MP in response to Parliamentary Question, Hansard, 25 June 2007.

the public finances – coming under real pressure as a result. The Liberal Democrats must therefore decide whether their fees policy, formulated in the middle of a sixteen year period of economic growth, remains a priority in a recession. After all, every £1 of the £2 billion it would cost to abolish fees, is a pound that cannot be spent enhancing services, or reducing the tax burden, for families further down the income scale.

Add to this the fact that the steadily rising cost of the Liberal Democrat policy would increase dramatically if the £3,000 fee cap were lifted, and it becomes clear why several senior Liberal Democrat MPs have been agitating for a change of policy in recent times. But if this is to happen, the leadership will first have to persuade the membership to vote for change when the issue is debated at the party's 2009 spring conference.

When that debate arrives, voting members would do well to ask two key questions of the current policy: who would benefit from the abolition of tuition fees? And would the abolition of fees significantly increase the university participation rate among students from low income families – the party's declared policy objective?

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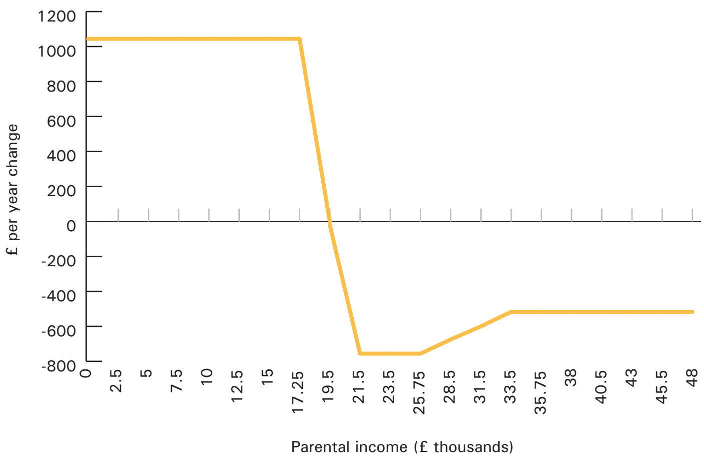
2. Who would benefit from the abolition of tuition fees?[6]

Between 1998 and 2006, when fees were means tested, their abolition would have done nothing to help the poorest third of students who were not required to pay them. Now that all students must pay fees, many assume that all students would gain equally if they were scrapped. Not so. This is because students from low income families were more than compensated for the introduction of variable rate fees in 2006 by the grants, bursaries and loan subsidies made available to them at the same time (and subsequently increased by Gordon Brown in 2007). The net effect is that, despite a trebling of the maximum fee level, only students from families with incomes above £19,500 per year were disadvantaged by the switch from the old to the new system.

Figure 1: Net change in students' financial position from replacing flat rate fees with variable rate fees

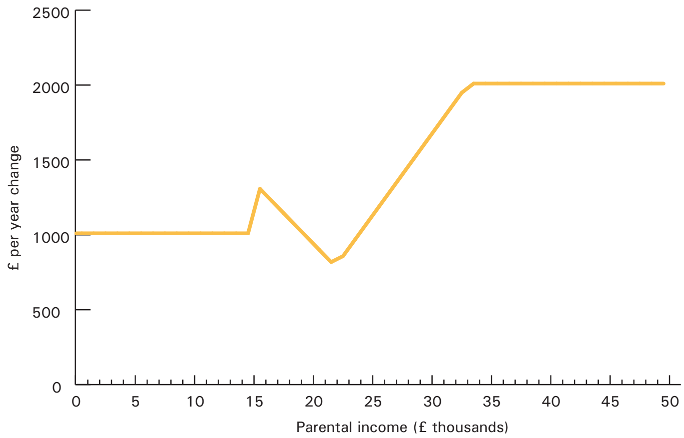


Source: A Goodman, 'User-charging in public services: the case of tuition fees for higher education' in 'Charging ahead? Spreading the costs of modern public services', Social Market Foundation, 2005.

As a result, although all students would benefit financially from the introduction of the Liberal Democrats' policies, those from affluent families would benefit the most (see Figure 2). The net benefit to students at the top of the income scale would be £2,010 per year – the £3,000 gain from abolishing fees, minus the £990 of subsidy that an average graduate receives while repaying the fee loan. The net benefit to students at the bottom of the income scale is further reduced by the fact that, under Liberal Democrat plans, they would also lose £700 in grants and £300 in bursaries.

6 This section analyses the distributional consequences of moving from the system of student support proposed by the Labour party at the 2005 general election (and introduced at the start of the 2006/07 academic year) to the system proposed by the Liberal Democrats at the same election. We have deliberately excluded from our calculations the changes to grants and loans introduced at the start of the 2008/09 academic year (which in any case will be partially reversed by academic year 2009/10) as the Liberal Democrats have not had an opportunity to update their policies since 2005. An explanation of the methodology used in formulating Figures 2, 3 and 4 can be found on page 11.

Figure 2: Net change in students' financial position from abolishing fees

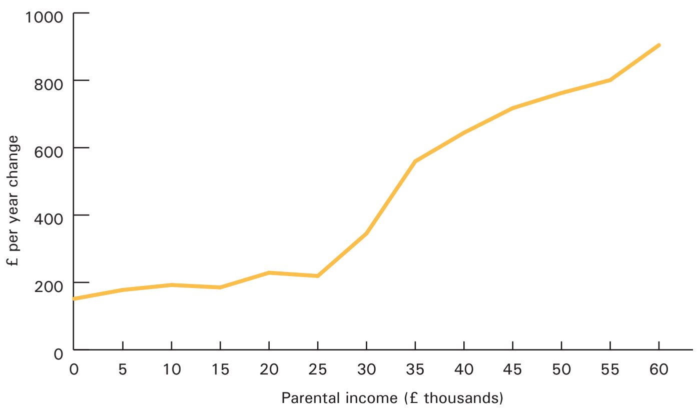


Source: Author's own calculations based on the policies in the Liberal Democrat 2005 general election manifesto.

The graph above only shows how the university population is affected by the abolition of fees. It does not take account of the fact that most young people never go to university, or the fact that most of those who do come from affluent families.

To show the wider impact of the Liberal Democrat policy – its impact on *all* young people, not just students – we need to factor in the likelihood of an individual actually attending an HE institution. With participation rates included in the calculation, the regressive nature of the policy becomes clearer still (see Figure 3).

Figure 3: Value of the Liberal Democrat HE policies to a typical family

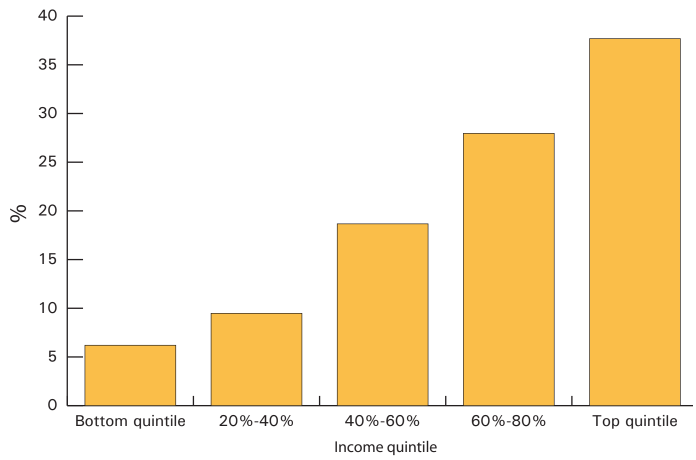


Source: Author's own calculations, using Dearden et al, 'Higher education funding reforms in England: the distributional effects and the shifting balance of costs', IFS, 2007; H Chowdry et al, 'Widening participation in higher education: using linked administrative data', IFS, 2008; and a sample of 1,600 households containing a 15 or 16 year old in the 2006 Family Resources Survey.

Two thirds of the money the Liberal Democrats have earmarked for fee abolition would go to the richest 40 per cent of families

The policy is therefore doubly regressive: both the level of the subsidy and the probability of receiving it increase with income. Little surprise then that two thirds of the money the Liberal Democrats have earmarked for fee abolition would go to the richest 40 per cent of families (see Figure 4).

Figure 4: Proportion of Liberal Democrat spending going to each income quintile



Source: Author's own calculations, using Dearden et al, 'Higher education funding reforms in England: the distributional effects and the shifting balance of costs', IFS, 2007; H Chowdry et al, 'Widening participation in higher education: using linked administrative data', IFS, 2008; and a sample of 1,600 households containing a 15 or 16 year old in the 2006 Family Resources Survey.

Figures 2, 3 and 4 only tell half the story, however. They show that most of the benefits of the Liberal Democrat policy are captured by students whose parents have relatively high incomes. But it is not parents who are obliged to repay student debts; it is students, once they have graduated and entered the labour market.

What then do we know about graduate earnings?

First, graduates earn significantly more than non-graduates. Although different studies differ over the precise size of the wage premium that a degree brings, they all reach the same broad conclusion:

going to university pays. According to the government's 2004 HE White Paper, a graduate can expect to earn 50 per cent more over the course of a working life than someone without a degree. Independent studies show that even when compared to someone with the next highest qualification – two 'A' Levels – a graduate can expect to receive a wage premium of between 15 and 30 per cent (a 25 per cent premium is equivalent to an additional £160,000 in cumulative earnings).[7] So not only do most students come from relatively high income families, but most then go on to enjoy relatively high incomes themselves.

Second, graduate incomes are heterogeneous – they vary according to gender (with male earnings being significantly higher than female) and according to the university and the department an individual attends. Hence the need for variable, rather than flat rate, fees.

Third, the gap between graduate incomes and non-graduate incomes has not fallen over time, suggesting that labour market demand for degree holding employees is keeping pace with supply.[8]

And fourth, there appears to be little or no link between a graduate's income and that of his or her parents. A study into the effect of social class on wages, which looked at two cohorts of students, one born in 1958 the other in 1970, found that:

> *"Higher education appears to have become a successful class leveller in that, conditional on achieving a degree, we do not find differences in the price of cognitive skills for different social classes."*[9]

7 R Blundell et al, 'Evaluating the impact of education on earnings in the UK: models, methods and results from the NCDS', Centre for the Economics of Education, 2004; I Walker and Y Zhu, 'Education, earnings and productivity: recent UK evidence', Labour Market Trends, 2003; 'The economic benefits of higher education qualifications', PriceWaterhouseCoopers (PWC), 2005; G Conlon, 'The economic benefits of a degree', PWC, 2007; L Dearden et al, 'The returns to academic, vocational and basic skills in Britain', Bulletin of Economic Research, Vol. 54, 2002.

8 S McIntosh, 'Further analysis of the returns to academic and vocational qualifications', Oxford Bulletin of Economic and Statistics Vol. 68, no. 2, 2006.

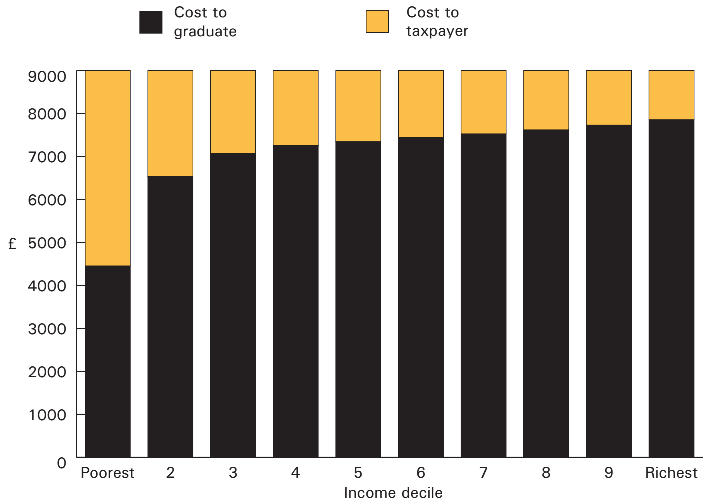
9 F Galindo-Rueda and A Vignoles, 'Class ridden or meritocratic? An economic analysis of recent changes in Britain', 2003.

In other words, while social class does affect an individual's chances of getting a degree, once a degree has been obtained, the impact of class on future earnings largely disappears.

When looking at the distributional effects of the current HE funding system on graduates therefore, it is important to remember that those individuals towards the bottom of the graduate income scale are not necessarily the same individuals as those clustered towards the bottom of the parental income scales shown in Figures 1 to 4.

Figure 5 shows how the income contingent loan system – with its £15,000 repayment threshold, 0 per cent real interest rate, five year repayment holiday and its promise of debt write-off at the end of the repayment period – protects graduates with low lifetime earnings. Indeed, the very poorest group can expect to have just over half their student debts paid by the taxpayer.

Figure 5: Average graduate payments under the current HE system by decile of graduate lifetime earnings distribution



Source: L Dearden et al, 'Higher education funding reforms in England: the distributional effects and the shifting balance of costs', IFS, 2007.
Note: Illustration assumes that all graduates pay the maximum tuition fee of £3,000 and borrow £9,000 over three years to cover the cost.

It is worth noting that Figure 5 does not show the difference between the average repayment rates for men and women. For women, the proportion of total debt paid by the taxpayer ranges from 60 per cent for the lowest earners to around

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15 per cent for the highest earners. For men, the range is narrower, from around 27 per cent for the lowest earners to 12 per cent for the highest.

As a consequence, the abolition of fees and fee loans would provide the biggest benefit to those graduates with the highest lifetime earnings. For that reason, it would also benefit men more than women. By this test too then, the Liberal Democrat policy is unequivocally regressive, even before its wider impact – on non-graduates as well as graduates – is factored in.

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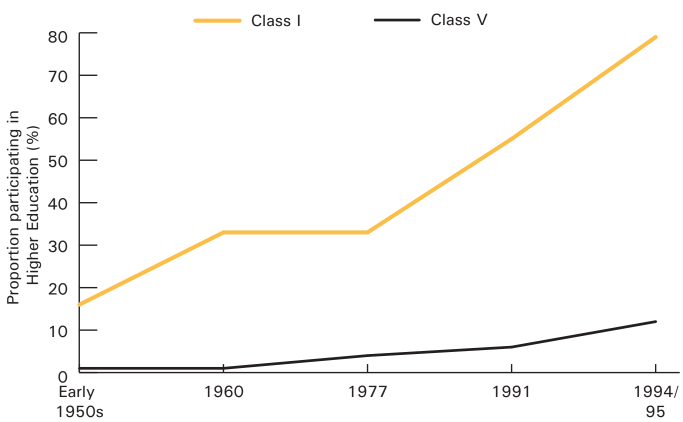
3. Would the abolition of fees increase the university participation rate among students from low income families?

Some might argue that offering a hefty subsidy to high earning graduates from affluent families is a price worth paying if it were likely to draw more low income students into the higher education system. But is this likely?

Currently, 43 per cent of 17 to 30 year olds participate in HE in England.[10] Yet this figure masks the large gap that exists between the participation rates of deprived and non-deprived students. According to the Higher Education Funding Council for England (HEFCE), young people born into the most affluent 20 per cent of families in the country are six times more likely to go to university than those living in the most deprived households. The gap between the top and bottom social classes (defined by father's occupation) is no smaller: more than three quarters of students from professional backgrounds study for a degree, compared to just 14 per cent of those from unskilled backgrounds.[11]

Access to higher education has long been dominated by the children of the affluent middle classes. As Figure 6 shows, the participation gap between the social classes grew fastest between 1977 and 1995 – three years before tuition fees were introduced. That is why it is impossible to defend the old system of 'free' university tuition on the grounds that it guaranteed equality of educational opportunity. The record shows that it did nothing of the sort.

Figure 6: Participation in higher education by class of father, 1950 to 1995



Source: A Wolf, 'Does education matter?' 2002.

What then did the introduction of fees in 1998 do to participation rates?

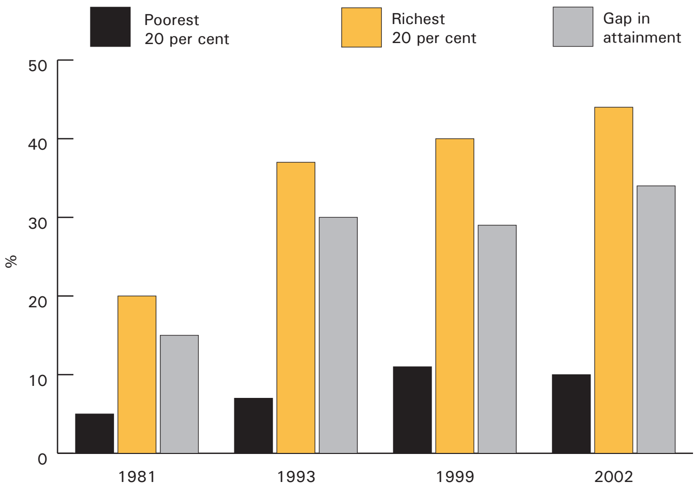
Recent research indicates that the growth in the gap between the participation rates of rich and poor slowed significantly in the period spanning the introduction of tuition

10 Department for Innovation, Universities and Skills (DIUS), 2007.

11 F Galindo Rueda et al, 'The widening socio-economic gap in HE participation', Centre for the Economics of Education, 2004.

fees (1993 to 2002).[12] Figure 7 shows the degree attainment rates for the richest and poorest members of four cohorts – those aged 23 in 1981, 1993, 1999 and 2002 – as well as the gap between them.

Figure 7: Inequality in degree attainment, 1981-2002



Source: J Blanden and S Machin, 'Up and down the generational income ladder in Britain: past changes and future prospects', National Institute Economic Review 205, 2008.

Between 1981 and 1993, the participation gap between the top and bottom quintiles doubled in size. Between 1993 and 2002, the gap remained broadly static. Explaining the slight increase in inequality between 1999 and 2002, the authors note: "The change is too small for us to rule out the possibility that it is an artefact of the data. So the recent evidence should be interpreted as 'no change'."

The fact that the introduction of fees (and the extension of loans) in 1998 produced 'no change' in the size of the HE participation/attainment gap suggests that the abolition of fees (and the corresponding reduction in loans) might also result in no change.

To test this assertion, researchers have sought to isolate and quantify the different factors that explain the variance in university enrolment rates between rich and poor students. There are, in essence, three such factors:

First, the cultural differences between the two groups: the degree to which an individual aspires to a university education depends to some extent on the expectations and aspirations of his or her family, friends and neighbours.

Second, the differences in their ability or willingness to pay for a university education: perceptions of affordability and attitudes towards debt are heavily influenced by parental income, with poorer students tending to be less willing to borrow, or to forego three years' earnings, in order to study.

And third, the differences in prior educational attainment of the two groups: poor school children are significantly less likely to get the exam results needed to get into university.

By controlling for the third of these factors – differences in prior attainment – we can get a better idea of the explanatory power of the first two – cultural and financial differences.

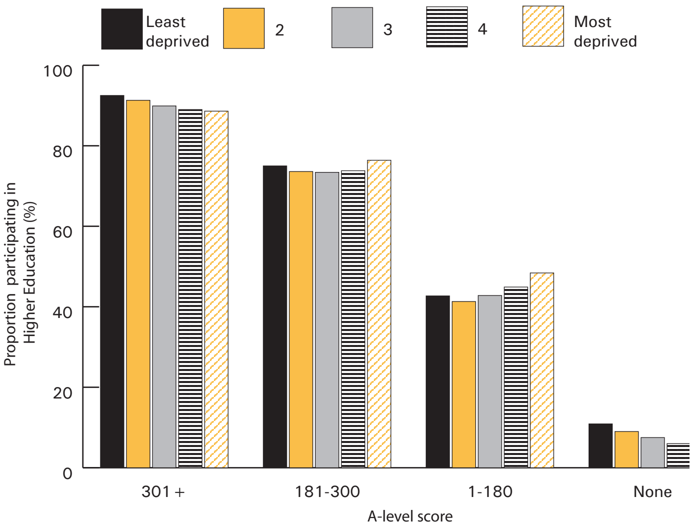
The Institute for Fiscal Studies has recently conducted just such a study and found that: "The socio-economic gap that remains on entry into HE, after allowing for prior attainment, is very small indeed: just 1 percentage point for males and 2.1 percentage points for females."[13]

Figure 8 sets out the likelihood of different students with the same 'A' Level results attending an HE institution. A rich student with 301 'A' Level points or more (three 'B' grades or higher) has a 92 per cent chance of going to university, while a poor student with the same grades has an 89 per cent chance of doing so. Among those with lower grades (181-300 and 1-180) the balance of probability works in the opposite direction: students from the most deprived quintile are fractionally more likely to be at university at age 18 or 19 than those from the least deprived quintile.

12 J Blanden and S Machin, 'Up and down the generational income ladder in Britain: past changes and future prospects', National Institute Economic Review 205, 2008.

13 H Chowdry et al, 'Widening participation in higher education: using linked administrative data', Institute for Fiscal Studies, 2008.

Figure 8: Probability of attending an HE institution by 'A' Level results and deprivation



Source: H Chowdry et al, 'Widening participation in higher education: using linked administrative data', Institute for Fiscal Studies, 2008.

The authors conclude:

> *"The implication of this finding is that focusing policy interventions on encouraging disadvantaged pupils in post-compulsory education to apply to university is unlikely to have a serious impact on reducing the raw socio- economic gap in HE participation. This is not to say that universities should not carry out outreach work to disadvantaged students who continue into post compulsory education, but simply that it will not tackle the more major problem underlying the socio-economic gap in HE participation – namely, the underachievement of disadvantaged pupils in secondary school."*

4. When does the educational achievement gap between rich and poor open up?

If policy makers are to tackle this underlying problem, they will need to understand exactly when the socio-economic gap in educational attainment opens up. Only then can the appropriate support be offered to the relevant children at the right time.

We know that when we look at a group of 18 year olds with the same 'A' Level results, the likelihood of their going to university cannot be predicted on the basis of their parents' incomes. But what if we were to look at 16 year olds with the same GCSE results, or 11 year olds with the same Key Stage 2 results? At what point, as we look further back in time, does the explanatory power of prior attainment begin to fade and of parental income start to grow?

The IFS research suggests that GCSE results are only a slightly less powerful predictor of future HE attendance than 'A' Level results. As a rule, the vast majority of those who do best at GCSE will end up at university, while those who do worst will not – irrespective of their parents' income. The same cannot be said of Key Stage 3 and Key Stage 2 results, however.

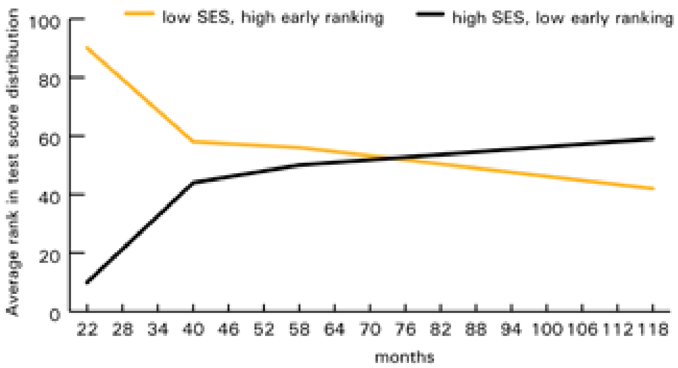
If we look at high performing but poor 11 year olds (those in the top quintile by Key Stage 2 results but the bottom quintile by parental income) and chart their future progress, we find that 42 per cent have slipped into the bottom three performance quintiles at GCSE stage. The seriousness of this 'slip' is underlined by the fact that, on average, only 8 per cent of pupils in the bottom three quintiles at age 16 will find themselves at university at age 18 or 19.

Early adolescence is not the point at which deprivation starts bearing down on academic performance, however. A study of a cohort of children born in 1970, which looked at their results in four cognitive ability tests (at age 22, 42, 60 and 120 months), found that disadvantaged children trailed non-disadvantaged children even before they turned two.[14] The difference between the average rank of children in the top and bottom social classes at 22 months was 13 per cent. At 120 months (10 years), the gap had widened to 28 per cent.

14 L Feinstein, 'Inequality in the early cognitive development of British children in the 1970 cohort', Economica, 70 (277), 2003.

This widening of the gap is explained by the fact that even those low socio-economic status (SES) children who did achieve good test results at 22 months tended to fall behind their lower performing peers from high SES families by the time they turned six (see Figure 9).

Figure 9: Average rank of test scores at 22, 42, 60 and 120 months by SES of parents and early rank position



Source: L Feinstein, 'Inequality in the early cognitive development of British children in the 1970 cohort', Economica, 70 (277), 2003.

The facts uncovered about the relationship between social class and educational achievement are stark and depressing: not only are poor children less likely to arrive at school as high achievers, but those who do are at constant risk of losing this advantage in the years that follow. To compound the problem, the evidence suggests that once a poor child falls into a low achieving group, he or she will probably remain there. By contrast, a high SES child in the bottom performance quartile at 22 months is more likely to be in the top quartile than still to be in the bottom quartile at the age of ten.

5. A real response to a real problem

The level of educational failure among poor school children is an affront to natural justice. For it is not the least able or least hard working children that are failing – it is the most deprived. And since educational failure is a cause, as well as a consequence, of poverty, it works to ensure that the multiple disadvantages that conspire against the poorest school children today will one day conspire against their children and their grandchildren too. Unless, that is, our political leaders can summon the political will to weaken – or even break – the link between educational failure and poverty.

To their credit, the Liberal Democrats – under the leadership of Nick Clegg, his deputy Vince Cable, and his education spokesman David Laws – have developed a raft of ambitious policy proposals to tackle the still vast inequalities of income and opportunity that exist in contemporary Britain. They are promising to cut unnecessary government spending and to raise taxes on those with the highest incomes, to free up billions of pounds to reduce the tax burden on the working poor. They are pledging an additional £3 billion to widen access to, and improve the quality of, pre-school education. And they are committed to introducing a 'Pupil Premium' – a new system of deprivation funding for schools that would see funding for the poorest state school pupils increase to the average private school level with immediate effect. Explaining why this last policy is so important to the realisation of the Liberal Democrats' broader objectives, David Laws told his party's 2008 conference:

> *"A society that can look at a child at age seven and know he or she is condemned to failure is neither liberal nor free nor fair. It should be the central mission of the Liberal Democrats to end this great injustice."*

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The Pupil Premium provides a mechanism for doing just this. It could, for example, allow for:

- A dramatic reduction in class sizes, particularly in the early years of primary school when, research shows, a low pupil to teacher ratio is most important;
- The introduction of 'Hard to Serve' bonuses to attract the best teachers into the lowest performing schools;
- The provision of one-on-one tuition to ensure that no pupils are left behind;
- The use of longer school days and/or Saturday morning classes. The extra hours could be used either to broaden the curriculum to stretch the most gifted pupils, or to bring underperforming pupils up to standard in the core subjects;
- The provision of more extra-curricular activities (drama, music, sport etc) and educational visits of the sort that more privileged children routinely receive on school trips and family holidays.

Those who claim that money – and the extra services money can buy – would make little or no difference to attainment levels, should take a look at the private sector where the average number of pupils in a class is lower (11 compared to 18 in maintained secondary schools); where teachers' pay is often significantly higher; where more hours of tuition are provided; where a broader curriculum is taught; and where opportunities for extra-curricular activities abound. There is no rule that says the same level of provision cannot be extended to the poorest pupils in the country – it can, if the political will can be summoned and the financial resources found.

So far, the Liberal Democrats have committed £2.5 billion to the Pupil Premium. But this would allow them to offer the extra money only to the 14 per cent of school children who receive free school meals (FSM). All those children whose parents are poor enough to qualify but who do not sign up for FSM, or whose family incomes are just above the £14,000 eligibility threshold would, under current plans, receive nothing.

If the party is serious about widening participation in HE, it should concentrate its efforts on driving up pupil attainment levels, not bringing down graduate debt levels

If the party wishes to increase the scope of the Pupil Premium to help more of the 44 per cent of pupils who currently leave school without five good GCSEs, more money will be required. The party leadership knows this. Indeed, David Laws has already signalled his intention to find sufficient savings elsewhere in the education budget to increase the Pupil Premium to £5 billion.

To date, no Liberal Democrat has dared suggest that the money earmarked for the abolition of tuition fees should be diverted to fund the Pupil Premium. This is unsurprising, considering the strong attachment of party activists to a fees policy which, for all its shortcomings, is at least distinctive, clear and popular with students.

But the test here is not whether the policy might benefit the Liberal Democrats; it is whether it will help the large number of children who, on current trends, will never enjoy the many benefits of a university education. And the fact remains that if the party is serious about widening participation in HE, it should concentrate its efforts on driving up pupil attainment levels, not bringing down graduate debt levels.

Does this mean that there is no need to spend any more on student support? Not quite. A case can be made for offering more financial assistance to part time students who cannot currently access the generously subsidised income contingent loans available to full time students. But putting this right would cost just £200 million. There is also a legitimate case (in theory) for using public subsidy to ensure that enough students are enrolling in strategically important but vulnerable degree courses such as physics, maths, engineering and chemistry. But recent figures showing that the number of students accepted onto these courses since 2005 has risen by 10.3 per cent, 12.4 per cent, 6.4 per cent and 12.1 per cent respectively, suggest that more subsidy is not needed at present.[15] At most then, the Liberal Democrats should be increasing the student support budget by £200 million, with the remaining £1.8 billion they have earmarked for fee abolition diverted to the Pupil Premium.

Conclusion

Public spending decisions cannot be made without regard to the health of the economy and the state of the public finances. We know that whoever wins the next election will have to raise taxes and cut spending to service the projected £1 trillion of debt they will inherit. Indeed, the government has already announced its intention to cut public spending by 2.5 per cent of national income, or £37 billion, between 2011 and 2014. As a consequence, any proposal to increase spending in one area will have to be offset by even bigger cuts elsewhere.

The Liberal Democrats need to decide whether, in these circumstances, they really want to campaign for the abolition of tuition fees, knowing that the policy would a) mainly benefit high earning graduates from high income families and b) do little, if anything, to get more poor students into university. Set alongside the genuinely tough spending decisions the party will have to make in the more fiscally constrained period that lies ahead, this one should be easy.

15 Independent, 'Top-up fees generating interest in sciences', 22 October 2008.

Note on Figures 2, 3 and 4

Figures 2, 3 and 4 use the 2007 Family Resources Survey (FRS) to assess the likely distributional impact of the Liberal Democrats' HE funding policies on a sample of families that might potentially be affected.

The families concerned were selected by filtering for households containing a 15 or 16 year old. In this survey we found 1,624 such households. We then determined each household's position on the income distribution by reference to its equivalised income (i.e. adjusted for household size) – a reasonable proxy for deprivation.

To calculate the financial impact on students of abolishing fees (Figure 2), we looked at each household's total income, adjusted to exclude benefits, to determine whether the young adult in question would qualify for a student grant (and the £300 bursary) under the eligibility criteria for the 2006/07 academic year. We used the grant levels that applied at that time, so that individuals with a family income below £15,970 were eligible for a grant of £2,700, tapered to £1,200 at family income of £22,100 and to zero at £33,560. We assume that all students pay the maximum fee of £3,000.

We then cross checked our sample with the grant eligibility figures for 2006/07 published by the Student Loans Company (SLC). The SLC reports that 23 per cent of students were able to claim the full grant at that time. For our survey, we found that 24.5 per cent of the households were eligible. This suggests that our sample is sufficiently typical for results to be extended to the policy in general.

To judge the probability that the young adult in each household would attend university, we used H Chowdry et al, 'Widening participation in higher education: using linked administrative data', IFS, 2008 – a study which analyses university attendance by deprivation quintile.

Finally, we calculated the financial impact of switching from the government's policy to the Liberal Democrat policy on each family. We then multiplied this through by the probability of each family's child going to university to give a weighted assessment of the consequences of the policy switch (Figures 3 and 4). By doing so we were able to take account of the fact that only those families with a child at university will be affected by changes to the student finance system.

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