

What will be the effect on socio-economic mobility of the UK government's plan to impose VAT on school fees?

The UK Labour Party proposed that from 1st January 2025, all education and boarding services provided by a private school or connected person will be subject to VAT at the standard rate of 20%.¹ Around 6% of the UK's school population attend private schools, and the families utilizing private education are highly concentrated among the affluent, with an annual income above £120,000.² Labour party members claim that this policy is estimated to bring positive effects to the socio-economic mobility in the UK by enabling those from less-privileged segments of British society to progress hierarchically, as it can fund public education using financial resources collected from wealthier segments of society. Policy makers plan to provide more nurseries, free breakfast, and more teachers.³ This may enhance education quality of state school system and enable working class parents to spend more time working, instead of taking care of their children.

Dissidents of the policy argued that increase in the cost of private school attendance may in fact bring negative effects to people from the lower and the middle class. They claimed that the affordability issues caused by the VAT, such as the possible increase of private school tuition and the decrease of scholarships, may cause a decline in lower to middle class students' enrolment into these schools, decreasing socio-economic mobility.⁴

Socio-economic mobility refers to the change of status, including earning and incomes, between generations or through the lens of individuals' lifetime.⁵ Education is often associated with positive change of socio-economic mobility. The theory of increasing-merit selection, as shown in figure 1, demonstrates the idea that if policies on education can weaken the relation between people's class origin and their education attainment while strengthening the correlation of education attainment and class destination, this policy can increase socio-economic mobility.

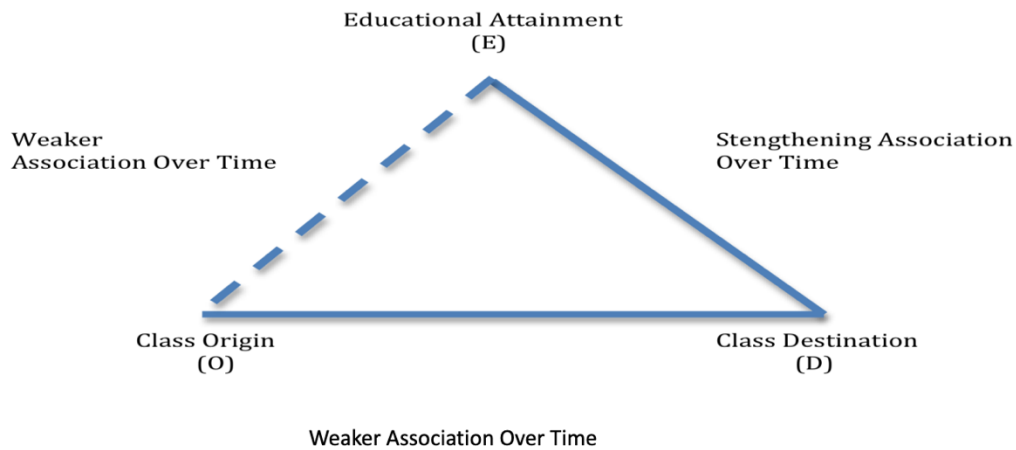


Fig.1 Hypothesis of Increasing-Merit Selection⁶

Gary Becker claimed that education and training are the most important investments in human capital, as they greatly raise a person's income.⁷ There is evidence that shows college graduate holding a bachelor's degree has 86 percent higher typical earning compared to graduates whose highest degree is a high school diploma.⁸ This demonstrates the positive correlation between improved education attainment and higher-class destination. However, Oxford Review claimed that private schools have around three times more resources than public schools in UK, which enabled privately educated students to have higher probabilities of going to universities and gaining a bachelor's degree, especially a prestigious university, than their state-educated peers.⁹ Therefore, if the government does not provide more resources for public schools, the strong relationship between class origin and education attainment may continue to exist or strengthen.

This essay will evaluate the socio-economic effect generated by this policy from the perspectives of revenue utilities on public education, decreasing affordability of private schools, non-academic advantages of private school, regressiveness of VAT-exemption and recommendations on the policy.

The government planned to invest using fund generated from the VAT, estimated to be around £1.7 billion a year, on public school system, including providing free breakfast, hiring 6500 new teachers¹⁰, and opening 3000 new nurseries.¹¹ These measures are predicted to improve