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**Article**

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## ACCESS TO HIGHER EDUCATION: THE SHIFT TOWARDS MARKET- BASED POLICIES IN THE UK

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### Introduction

The United Kingdom, and specifically England, now has the most radical, market-based policies of any major higher education system. This article describes what is meant by ‘market-based policies’; looks at the historical background to the current reforms; assesses their impact to date; and suggests some of the lessons to be learned (for a fuller analysis, see Brown (2013) and submitted for review).

### What is meant by market-based policies?

The classic economist’s notion of the market is one whereby the demand for, and supply of, a particular good or service are balanced through the price mechanism. Consumers choose between different producers on the basis of information about price, quality and availability. There is market entry and exit for providers together with regulation to inform and protect consumers and market transactions.

For a variety of reasons, mainly externalities/public goods aspects, higher education is not organised fully on market lines in any country. For the purposes of this discussion, a market-based higher education system is seen as one with the following characteristics:

- A significant amount of institutional autonomy.
- A liberal system of market entry, including both private ‘not for profit’ and ‘for profit’ participants.
- A significant amount of competition between institutions for students, with students having a genuine choice of provider.

- Tuition fees representing all or a significant share of the costs of teaching.
- Private support for those costs representing all or a significant share of institutional funding.
- A substantial proportion of students’ living costs being met privately.

Research nearly everywhere is funded along non-market or quasi-market (Le Grand and Bartlett 1993) lines, but with increasing amounts of private funding and support. Developed systems meriting this description include the United States, Australia, New Zealand and parts of Canada, as well as the UK. Amongst the continental European systems, the Netherlands and some German *Länder* display some market features, although recently there has been some rowing back. Japan and Korea both have substantial private sectors and high levels of private expenditure on both tuition and support. Many other systems are moving in this direction as expansion places public expenditure under greater pressure (Brown 2011a and b; Foskett 2011; Slaughter and Cantwell 2011).

### Current English reforms

With effect from the start of the current academic year (October 2012) the UK Coalition Government has increased the full-time undergraduate tuition fee from GBP 3,375 to GBP 9,000. At the same time, the block grant that institutions used to receive from the Government to support the costs of teaching has been radically reduced, so that there are now direct subsidies only for a few ‘strategically important and vulnerable subjects’ (mainly science and engineering), access, and a small number of specialist institutions. The Government has also relaxed the controls on the number of places it will fund, so that universities can recruit particularly well-qualified students (those obtaining AAB or better grades in the CGE A Level exams, which are the main qualification for university entry) without limit. It has also relaxed the rules for university title, so that specialist institutions with at least 1,000 Full-Time Equivalent students can obtain a university title (the previous threshold was 4,000). This will mean that another ten universities will join the 115 existing ones.



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The Government has summarised the case for the changes in the following terms: “Our reforms tackle three challenges. First, putting higher education on a sustainable footing. We inherited the largest budget deficit in post-war history, requiring spending cuts across government. By shifting public spending away from teaching grants and towards repayable tuition loans, we have ensured that higher education receives the funding it needs even as substantial savings are made to public expenditure. Second, institutions must deliver a better student experience; improving teaching, assessment, feedback and preparation for the world of work. Third, they must take more responsibility for increasing social mobility” (Department for Business, Innovation and Skills 2011, Executive Summary, paragraph 3).

As a result of these reforms, the English system of higher education now conforms quite closely to the market model:

- Universities are legally private institutions with considerable financial and operational autonomy.
- Whilst most providers are ‘not for profit’ institutions, ‘for profit’ providers are beginning to emerge, with considerable official encouragement.
- There is fierce competition for students, with students having a wide choice of subjects, programmes, providers and modes of study, together with a considerable amount of information on which to base their choices.
- Tuition fees now represent all of the costs of teaching for most subjects.
- Students must meet tuition and living costs from their own or their families’ resources, although income contingent loans remain available to full-time students to cover fees and living costs together with a system of non-repayable maintenance grants and bursaries for students from households with incomes of up to GBP 42,000 (part-time students are entitled only to fee loans).

### The historical background

These reforms can be seen as the latest stage in a progressive process of marketisation that began with the Thatcher Government’s decision in November 1979 to end the subsidy for overseas students’ fees. Other major steps have included:

- The separation of public funding for teaching and research, and the introduction of selective research

funding, from 1986.

- The increase in the level of the still-subsidised Home and EU Student Tuition Fee in 1989, and the corresponding reduction in the institutional grant for teaching (partially reversed in 1993).
- The introduction of ‘top-up’ loans for student support from 1990.
- The abolition of the ‘binary line’ between universities and polytechnics in 1992.
- The introduction of ‘top-up’ fees of GBP 1,000 in 1998.
- The changes in the rules for university titles in 2004 to enable institutions without powers to award degrees to obtain a university title.
- The introduction of variable fees of GBP 3,000 in 2006.

We should also note the corporatisation of university governance and the introduction of sector-wide institutional indicators and benchmarks (Brown 2012a and b).

### What has been the impact of these reforms?

There can be little doubt that, through research selectivity, cost-sharing between taxpayers and students/graduates, and the increase in the number of providers, UK higher education is much more efficient in its use of resources than it was even ten years ago. This has enabled public and private funding to go much further. UK universities are also much more responsive to students and other external stakeholders, and much more entrepreneurial (as anyone who has encountered their representatives at overseas student recruitment fairs can confirm). This is reflected in the extent to which they have diversified their revenues away from reliance on the taxpayer, to an extent that was simply unimaginable thirty years ago.

But there has also been a downside. There has been a reduction in institutional diversity and an increase in institutional stratification and inequality. This, in turn, has limited educational innovation, reduced opportunities, and damaged social mobility. The effect on quality has been mixed. In both research and teaching, improvements became increasingly marginal as institutions devoted more resources to compliance and learning to ‘play the game’. Research selectivity has become the pursuit of status, quality assurance has become reputation management, admissions has become marketing, Vice-Chancellors have become entrepreneurs. Above all, marketisation threatens the implicit contract that higher education has with society whereby univer-

sities enjoy certain privileges in return for the public goods that they provide: “The classic justification for the non-profit status of educational institutions is that it redresses information asymmetry between buyers and sellers. Because consumers cannot adequately monitor the quality of educational services, they prefer dealing with institutions they can trust not to take advantage of them to make a profit. But maximising revenue now looks a good deal like making a profit. Private universities now engage in such deceptive practices as awarding less aid to early admission students or front-loading the first year of aid packages (McPherson and Schapiro 1998). Students in the aggregate may gain greater wages through these arrangements, but each student must fend for themselves. Trust in this relationship can no longer be assumed” (Geiger 2004, 171).

It is clearly too soon to be able to evaluate the impact of the current reforms (Brown, submitted for review). The rest of this article looks at the main claims made for market-based policies and considers how far such claims are justified, drawing not only on UK experience, but also on the experience of other systems that have gone down the market route.

### **Marketisation of higher education: pros and cons**

Five main claims are usually made for introducing or increasing market competition in higher education:

- Increased efficiency.
- Increased quality.
- Increased innovation.
- Increased diversity.
- Increased student choice.

#### *Increased efficiency*

The argument is that the introduction or intensification of competition will increase the efficiency of resource use (as can reduced funding, either in aggregate or per student). This is positive because it makes resources go further, and reduces claims on the taxpayer and the economy, thus freeing up scarce capital for other potentially more valuable or important uses. However, increased competition can also lead to significant waste, for example, the amounts spent on marketing and other activities unrelated to the quality of education, the transaction costs of bidding competitions, the additional resources needed for collecting fees, chasing debts, etc. This is, of course, ironic given the rationale for marke-

tisation in the first place, namely to obtain better ‘value for money’ and make resources go further. Of course, regulation in a non-market system can also consume and divert resources. All this points to the need for efficiency to be measured and the effects of the changes monitored.

#### *Increased quality*

Quality of service can be increased if institutions have to take greater account of consumers’ views, enhance service responsiveness, give quicker and better feedback to students, handle complaints more expeditiously, etc. But quality may also be damaged if consumers or consumer pressures have too much purchase (grade inflation, grade grubbing); and especially if quality judgments are taken out of academic hands by the market or by managers acting in response to market conditions/signals (Brown 2009). There are also clear dangers from students adopting a more ‘instrumental’ attitude to their studies (‘commodification’: see Naidoo and Jamieson 2005). This points to the need for quality to be monitored independently of market conditions/controls, but taking account of resourcing levels and uses, and by an agency independent both of the institutions and government.

#### *Increased innovation*

Innovation can increase efficiency, raise quality, expand choice and increase consumer satisfaction, etc. Innovation, however, can also be damaged if institutions don’t wish to be seen to be departing too far from recognised academic models. Innovation is closely linked to differentiation (see below). A lot depends on which institutions are doing the innovating, and it will rarely be the high prestige ones. In any case, innovation on its own is not necessarily good: it can be at the expense of quality. All this points to the need for innovation to be defined and monitored, for example, for its effect on quality

#### *Increased diversity*

Differentiation can occur to extend demand for an institution’s ‘product’ by distinguishing or emphasising special characteristics, creating and occupying special niches, etc. But it can also be reduced if a single institutional model – the large, multi-faculty, research-intensive, selective university – becomes dominant. This is linked to the risk that marketisation will strengthen the dominant institutions, which, in turn, increases the

risk that their needs/interests will distort the system (as, arguably, will research due to the costs of building up research capability). This is almost certainly what has happened in the UK: reputational hierarchy has replaced functional diversity. Diversity can also be reduced through the rationalisation of institutions (absorption of specialist institutions) and/or of programmes (as low demand subjects are curtailed or withdrawn because of cost pressures on providers, ‘cherry picking’ by new entrants, etc). This points to the need for diversity to be defined, monitored and protected, if necessary through state intervention to constrain possibilities for institutional development.

#### *Increased student choice*

Choice can be increased as the number of institutions grows, especially if entrant institutions offer something different (innovation) or existing institutions widen the programmes/subjects/modes on offer (diversity). But it can also be reduced through rationalisation and reduction of differentiation at institutional level and/or rationalisation at a programme level (reduction of cost subsidies). This points to the need for the definition, monitoring and costing of all aspects of student choice.

#### *Equity*

Not even the present British government claims that marketisation improves equity; it is, in fact, far more likely to exacerbate, rather than to reduce inequalities between different socioeconomic or ethnic groups. This can happen in at least three ways: through the increased importance of economic factors in student choice (including the increasing use of ‘merit’ or non-needs based aid), through the unwillingness of prestigious universities to expand places in line with increases in demand, and through stratification (of universities and the social groups they serve). We should also note the (mutually reinforcing) interaction between marketisation at university level and stratification at secondary education levels, not to mention the links between the marketisation of higher education and other policies to introduce market or quasi-market competition into other parts of what used to be called the ‘public sector’. This points to the need for state interventions to protect equity against market competition. Even if the basic causes of differential participation in higher education lie much further back in the education system, we should surely avoid exacerbating them.

## **Conclusions**

This brief review of the shift towards market-based policies in the UK suggests the following conclusions.

Firstly, no claim for or against marketisation can be unqualified. The issues are the balance between market and non-market provision after establishing clear concepts, definitions and categories of evidence.

Secondly, the importance of information. If valid, reliable and accessible indicators of educational quality can be found, so that proper comparisons can be made, and if there is confidence that they will be used in a rational manner by students and others, then we can be more confident about the positive potential of markets and associated activities like marketing as a basis for an efficient and high quality university system. Even then, however, we need to remember that students are not the only beneficiaries of higher education and that the benefits are not limited to economic benefits that can be quantified. In any case, equity will always require some non-market interventions. If we cannot have this information, however, then we should be much more cautious: “If individuals are fundamentally rational and the problems are ... [uncertainty, imperfect information], the potential role for policy would be to try to address these market imperfections by helping students make the decisions they want. If, on the other hand, students are fundamentally irrational then giving them more information or eliminating market imperfections will not necessarily improve outcomes. In the latter case there may not be a need to strengthen consumer choice in higher education, and it might be better to, for example, let educational authorities offer the programmes they deem best for students rather than let student preference drive programme selection” (Jongbloed 2006, 25).

Thirdly, market organisation may help to ease overall funding pressures, but it isn’t a panacea. Systems can be underfunded for longer periods, but at some point quality will be damaged if appropriate levels of funding – whether public or private – can be found. Incidentally, a comparison of different national systems suggests that a significant proportion of public funding is needed if quality is to be maintained (Hotson 2011).

Fourth, decisions need to be made by governments about the appropriate extent and mix of market and non-market provision. Governments need to review system performance against clear objectives for the institutions as a whole. Ultimately, one should determine the mix of

market/non-market provision on the basis of evidence of effectiveness against the objectives being sought for the system as a whole, and in the light of evidence about the effect of different policies so far as this can be found. At one time one might want more competition, at other times less. Of course, this in turn depends upon the government having the necessary information and evidence and being prepared to look at it in an objective fashion.

Fifth, increased competition doesn't mean less regulation: "The more governments strengthen the role of markets in higher education the more they need to give attention to issues such as the quantity and quality of the information available in the system, the consequences of enhanced institutional competition and the level of equity (either at the individual or at the institutional level)" (Teixeira 2009, 57–58).

The UK experience shows that introducing or increasing market competition in higher education can lead to significant increases in efficiency, responsiveness and innovation. These gains, however, need to be set against increases in stratification and reductions in diversity, as well as possible problems for quality; action also needs to be taken to protect equity. This suggests that the introduction or extension of market or quasi-market competition should be carried out gradually and with careful monitoring of the impacts at each stage. In this way, it may be possible to enjoy some of the benefits whilst avoiding or minimising some of the detriments.

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