POLICY BRIEFING

English universities in crisis

Markets without competition

SUMMARY

The English university funding system shifted in 2012. Grants were abandoned and fees went up in a 'market for students'. Competition was intended to lead to higher quality. Numbers were later uncapped to allow all qualified students to find a place.

In reality, the system went from 'competition without markets' to 'markets without competition'. The Russell Group extended its dominance, with other universities going downmarket to attract students. Rampant grade inflation was an inevitable result. The expected repayment on loans is now about 50%, leaving a major future burden on taxpayers.

The current system is unsustainable, even ignoring the fact that students report poor value for money and there are growing demands for fees to be lowered. Some universities are now reported to be on the verge of bankruptcy.

Our book examines why the markets as implemented were bound to fail, and in it we make concrete policy proposals. Fees need to be lowered and the contingent-repayment system reformed to avoid rewarding failure. We propose a 'flexible cap' on student numbers at each university to ensure widening participation of non-traditional students throughout the sector. The external examination system needs to be restored to ensure the integrity of degrees and end grade inflation.

English universities in crisis: Markets without competition by Jefferson Frank, Norman Gowar and Michael Naef is published by Bristol University Press on 30 January 2019 price £12.99.

bristoluniversitypress.co.uk/english-universities-in-crisis

THE PROBLEM

The 2010 Browne Report proposed controlling the market process with caps on student numbers and fees.

In removing these caps and setting higher fees of £9000, the Government implemented the Browne Report in a way that they thought would be even more supportive of universities and students. Widening participation would be encouraged since the higher fee of £9000 was dependent upon an agreed plan with the Office for Fair Access. The new TEF (Teaching Excellence and Student Outcomes Framework) would help ensure the quality of provision.

In 2017 the National Audit Office observed that only 32% of students felt that they were getting value for money. Widening participation was limited in extent and concentrated in the less prestigious universities. There has been limited price competition and little financial reward to rising in the league tables. Rampant grade inflation has ensued. Estimates are that the majority of students will never repay their debt in full, and that roughly half of the student debt will not be recovered, representing a significant claim on the public purse. By the measure of 'employability', a large percentage of graduates are in non-graduate jobs.

Meanwhile, a number of universities borrowed heavily on the complacent basis that these revenues would continue into the future.

This has left some universities on the verge of bankruptcy, and other universities preparing for financial stringency. Our book combines economic analysis and data with the insights of a former Vice-Chancellor to show that what went wrong was entirely predictable. We analyse how and why competition took the form of marketing rather than building the quality of education. Most importantly, we develop a set of concrete policies to redress the situation which flow from our critique of the current state.

THE WRONG KIND OF COMPETITION

Are markets the right organisation for the higher education sector? For the record, we would not have moved in this direction and much prefer a system with essentially free fees. This is in large part because we believe that education has its own inherent value for society as well as the individual. Current government thinking that financial criteria trump all other considerations is a threat to the real purpose of a university.

We feel that English universities now reflect the sort of competition seen in the American car market in the 1950s. Rather than competing on engineering, fuel economy and safety, manufacturers competed by seeing who could construct the highest tailfins for their cars.

When students are asked where they put highest priority on spending their fees they opt for improving the staff student ratio. Instead, showy building programmes became the rage and management and university councils got caught up in a mistaken view that this was how best to compete. The 'student experience' was emphasised over academic attainment and the educational quality of programmes.

As with the US automobile market, government needs to intervene and ensure 'safety'. For universities, the focus needs to be on protecting the value of a degree and reversing grade inflation. Competition should be on the basis of attractive, rigorous, well taught courses with assured standards for the final qualification.

OUR PROPOSALS FOR POLICY

We feel that it is simply unreasonable to ask the taxpayer or the student for additional funding for universities. We don't propose to shift away from the market approach, despite our reservations – since that is what the elected government has decided. What is now needed is to make the markets work.

1. We propose that **fees be reduced to £7200**, an amount sufficient to cover education costs;

2. The **real (after inflation) interest rate on loans should be lowered to zero for both existing and new loans**. This change would go a long way to restoring inter-generational equity, and so we do not see the need to write-off existing loans other than perhaps a write-off of excessive interest charges incurred to date;

3. **Loan repayments should simply be a percentage of the income tax liability of the individual.** Long term unpaid debt would be significantly reduced – a debt which under current arrangements would eventually impact on current students in their role as taxpayer, in addition to the repayments on their student loans;

4. **VC pay should be benchmarked against academic salaries**, and not against hypothetical managers of financial firms. It is not obvious that the current practice produces the 'best' leaders since it encourages VCs to be motivated by commercial approaches rather than traditional academic values;

5. The **external examiner system has to be restored and the integrity of degree classifications ensured**. The other functions of QAA, including TEF and the NSS, can be terminated;

6. **OFFA should be terminated and replaced**. Each university should have student numbers capped at a level related to their 2011 levels. However, each university can then recruit uncapped numbers of widening participation students. Re-introduction of means testing of fees would readily identify these students. Means tested fee and maintenance grants should be restored as a further effective tool for widening participation.

7. **Block grant could continue to be used** to support high cost subjects, as at present, and further provide special support for subject areas such as Modern Languages currently in jeopardy;

8. The **diversity of mission of universities should be recognised and encouraged**. A programme in theoretical physics at Imperial College is not the same as a programme in general science at a post-1992 university. Neither is better or worse in terms of what it can contribute to the student and the country, but the costs and focus of each is different. Universities which embark on a perfectly reasonable strategy with a course profile incurring lower cost should be able to set lower fees without the connotation of poorer quality;

9. The authorities need to **monitor financial health and be ready to step in** when a few over-extended universities become essentially insolvent.

About the book

Recent policies have replaced direct government funding for teaching with fees paid by students. As well as saddling graduates with enormous debt, satisfaction rates are low, a high proportion of graduates are in non-graduate jobs, and public debt from unpaid loans is rocketing.

This timely and challenging analysis combines theoretical and data analysis and insights gained from running a university, to give robust new policy proposals: lower fees; reintroduce maintenance awards; impose student number caps; maintain taxpayer funding; cancel the TEF; re-build the external examiner system; restructure the contingent-repayment loan scheme; and establish different roles for different types of institutions, to encourage excellence and ultimately benefit society.

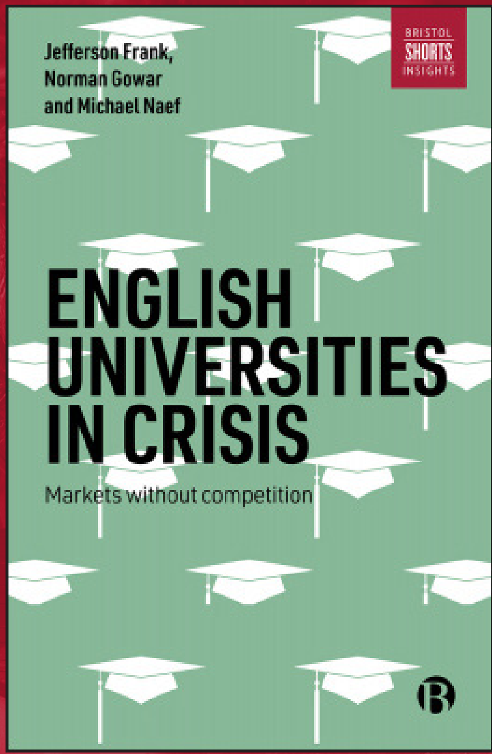
Jefferson Frank was founding head of the Economics Department at Royal Holloway. Trained as a macroeconomist, Jeff has also extensively investigated the gender pay gap, BME and LGBTQ discrimination, inequality in the university sector, and the current funding and fees crisis. He is the author of The Responsible Economy (Routledge, 2014) and a Fellow of the Academy of Social Sciences.

Norman Gowar, Professor Emeritus of Mathematics at the University of London, is a former Principal of Royal Holloway. He presented the first lecture ever to be broadcast by the Open University. He led on the foundation of the Office of the Independent Adjudicator for Student Complaints and was its first Chairman.

Michael Naef is Reader in Economics at Royal Holloway. He works in experimental economics using weird and wonderful substances (testosterone, estrogen, sulpiride) to see what happens. He has published widely, including in Nature and the American Economic Review.

English universities in crisis: Markets without competition by Jefferson Frank, Norman Gower and Michael Naef is published by Bristol University Press on 30 January 2019 price £12.99

bristoluniversitypress.co.uk/english-universities-in-crisis



POLICY BRIEFING
bristoluniversitypress.co.uk

BRISTOL UNIVERSITY PRESS

First image: Charl van Rooy on Unsplash
Second image: dpexcel on Pixabay
Third image: Alexis Brown on Unsplash