

**OxCHEPS PAPERS, No. 10:
SUPPLEMENTARY NOTES FOR 'The Economics of Higher Education'...
(See *Times Higher* (11/6/04, p8) concerning the book.)**

<i>Page of book</i>	<i>Supplementary Note</i>	<i>Page of book</i>	<i>Supplementary Note</i>
3/4	7	51	11
13	8 & 19	51	21
14-17	17, 18i, 29	57	10
15	3	62	4
15	5	63	13
16	20	64	15
20	2	65	22
22	1	68	12
25	14	72/73	25 & 27
29	16	73	30
30/31	18 & 24	78	9
45	6	82	23
50/51	28	112	26

**NB ALPHA INDEX OF ADDITIONAL MATERIAL BY/REFERENCES TO,
X-Ref to Supplementary Note No.:**

Adelman, 13b
 Amacher & Meiners 24
 Astin & Oseguera, 13c
 Barr, 18e
 Baum, 13e
 Becker, 18i
 Belfield & Levin, 18a
 Blanden & Gregg, 4
 Bologna Process, 15
 Bowen 27
 Bowen, Kurzweil & Tobin, 27
 Bowen & Bok 18n
 Brown & Hesketh, 20
 Brunneau & Savage, 30
 Buchanan & Devletoglou, 18m
 Buchel, 18g
 Carnevale & Rose, 13a
 Clotfelter, 16c
 College Board, 13e
 Cook, 18k
 CPRN, 30
 Creedy, 18c
 CSHE/OxCHEPS 04 Symposium, 18l
 Ehrenberg, 9 & 16a
 Elias & Purcell, 5

EPI, 4
Etzkowitz, 29
EUROSTUDENT Project, 17
Felstead/Gallie/Green, 19
Finnie & Usher, 30
Forsyth & Furlong, 4
Geiger, 24
Goldman & Williams/RAND, 18j & 21
Gorard, 2
Griliches, 29
Grubb & Lazerson, 20
Hatt et al, 2
HEFCE, 27
Heller, 22
Helpman, 29
HEPI, 3 & 15
Hofman & Steyn, 5
Hoxby, 2
IHEP, 29
Johnstone & Shroff-Mehta, 16
Johnstone, 16
Kahlenberg, 18b
Kealey, 11
Keep & Mayhew, 19
Kirp, 2
Longden, 2
Lumina Foundation, 23
Machin & Stevens, 18i
Machin & Vignoles, 18o
Massey 18n
Mayhew & Keep, 19
Maynard, 18m
McPherson & Schapiro, 16b
Mumper, 13b
NASFAA, 13e
NIESR, 2
OECD, 11 & Appendix 1
O'Leary & Sloane, 17
Oliveira & Zanchi, 2
OxCHEPS/CSHE 04 Symposium, 18l
OxCHEPS/Ulanov Report 26
Oxford's 2005 Green Paper, 28
Pennell & West, 2
Psacharopoulos & Patrinos, 17
Pugsley, 2
PURE, 17
Raines & Leathers, 18b & m
Shanghai J T University, 7
Schwartz, 9
SATs, 27

SEGs, 1
Sommer, 18m
St John, 18h
St John & Parsons, 18f
Sutton Trust, 4
Swail, 4
Swail & Heller, 4
Tapper & Palfreyman 25
Thacker, 23
THES 7
Thomas E., 6
Usher & Cervenán, 4
Van Der Horst, 4
Vedder, 24
Vouchers (Colorado, Schwartz, Tories), 9
Weko, 12
West, 18m
West & Gibbs, 4
Winston, 16d
Wolf, 18i
Zhang & Thomas, 29

1. **UK SOCIAL CLASS** (p 22): There is a new classification of UK social class, introduced in 2001. It is...

Class 1 – c9% of the population; professional/managerial (including university academics, doctors, teachers, social workers, clergy).

Class 2 – c20%; lower managerial/professional (including artists, nurses, lab technicians).

Class 3 – c9%; intermediate occupations (eg medical and legal secretaries).

Class 4 – c7%; self-employed.

Class 5 – c7%; lower supervisory/technical (eg traffic wardens, plumbers).

Class 6 – c12%; semi-routine occupations (eg shop assistants, chefs, hairdressers).

Class 7 - c9%; routine occupations (eg waiters, packers, porters).

Some 30% are not covered ('unclassified') in any of the above: long-term unemployed, full-time students, retired.

2. **SOCIAL BACKGROUND OF UK STUDENTS** (p 20): Students from the top social groups not only dominate HE and certain HEIs, but also particular subjects (medicine is the 'poshest' with 74% of students from the higher social classes; cf maths/IT at 46%, engineering at 51%, nursing at 52%, law at 58%, history at 67%...). The new data covers 2003 UCAS admissions and uses the classification described in Note 1 above: 'the top social groups' are taken in the *THES* analysis (30/4/04) to be classes 1-3, amounting to c35% of the population. Overall, the entry to HE using the new 7-class system is 55% from 1-3, 25% from 4-7, and 20% from the unclassified (corresponding to 35%, 35% and 30% chunks of the population). It is interesting to speculate that maths ability is spread fairly equally across classes and progress at school is not dependent as much on well-resourced teaching, whereas physics and chemistry are favoured by more well-funded science teaching affordable in the independent schools attended pre-dominantly by the better-off. This also fits with independent schools getting more (and better) Grade As at 'A'-level in such subjects. (See also Note 4 below.) It also fits with an economic analysis – involving some complicated algebra – by **Oliveira** (University of Leicester) and **Zanchi** (University of Leeds), which concludes that the children in families with fathers who have participated in HE, where the family owns the house, and when the father has a high social class, are more likely to proceed into HE: '... equality of opportunity is not a characteristic of the higher education market in the UK'. Beyond demonstrating, via equations, the obvious, the 2003 WIP Paper (at <http://www.economics.bham.ac.uk/seminars/External/2003/Oliveira->

[Zanchi\(2003\).pdf](#)) is more useful for its extensive list of References to journal articles on this issue. Bernard **Longden** ('Interpreting Student Early Departure from Higher Education through the Lens of Cultural Capital' in *Tertiary Education and Management*, 2004, 10(2) 121-138) provides a through review of relevant US & UK literature and a useful definition: 'The key idea to cultural capital is that elite education requires prior familiarity with elite cultural codes and students who, because of a lack of pre-university experience, are unfamiliar with these codes find it difficult to achieve educational success'. **Pugsley**, L. (2004), 'The University Challenge: Higher Education Markets and Social Stratification', explores exactly how a 1997 cohort of young people in a range of Welsh schools went about applying to university, and emphasises the importance of social and cultural capital (acquired both via family background and in certain schools) in their choosing which university to attend, a process which leaves the privileged middle-class well-placed to navigate the new HE market-place, and its consumerism and rhetoric of choice, as UK HE is commodified. The role of the school can be crucial in raising confidence and ambitions [a similar study of early-1960s university applicants made the same point about working-class boys in State grammar schools: R.N. Morris, 1969, 'The Sixth Form and College Entrance', Routledge – and a 1998 reissue/reprint]. In short, 'university choices are mediated by class-based competencies' and 'a marketized higher education sector merely replicates class-based inequalities'; 'privilege remains the passport to higher education' and 'ensuring that real choices are available to all students [as applicants from schools] regardless of their social background remains the real university challenge'. (See also reference to Pugsley at p. 62.) **Kirp**, D.L. (2003), 'Shakespeare, Einstein, and the Bottom Line: The Marketing of Higher Education', describes the ultimate in the deployment of US middle-class social and cultural capital, *and hard cash*, to assist their offspring in applying to top colleges: 'Ivywise' charges \$29k (sic) to guide applicants by, for example, getting them to read the books written by the professors at their potential college, by preparing the applicant for interview using 100 sample questions, and by video-taping mock admissions interviews... Another such 'guidance counsellor' sent Yale and Brown a CD of an applicant's singing talents, despite the individual not applying to do music (over to the discussion about 'holistic assessment' and 'profiling' in Note 4 below...). [Kirp has an interesting chapter 13 on DeVry University as a for-profit HEI: see pp 56-59.] See also, re US HE, C. **Hoxby**, 2004, 'College Choices: Where to Go, When to Go, and How to Pay for it'. An **NIESR** Report (by Hilary Metcalf, January 2005) for the Leverhulme Trust calculates that the average student debt for those paying £3K fees from 2006/07 will on completion be c£15K (£6K more than now, and £10K more than in 1998 when the £1000 fee was introduced and the free HE of the early-1970s-late-1990s disappeared). Tuition fees appear to make students less satisfied with their HE experience, and those not getting financial help directly from parents are especially hard hit. **S. Gorard** ('Where Shall We Widen It? Higher Education and the Age Participation Rate in Wales', *HEQ* (2005) 59 (1) 3-18) argues that, in the UK generally, 'the widening participation agenda is in danger of addressing the wrong issue' in that it is trying 'to solve a problem that does not exist': all qualified 18-year olds of whatever social class are already entering HE (albeit not evenly across types of HEI); the real problem is

keeping lower SEQ kids in schooling beyond 16 in order to increase applications subsequently to HE, and tackling this problem may involve greater spending on pre-school State education or on adult/continuing education – possibly at the expense of HE spending in terms of achieving social equity and vfm in public policy! (See also articles in HEQ 59 (2), April 2005: **Hatt et al** on student bursaries at two UK HEIs (they can ‘strengthen the commitment and determination of students’ and hence ‘seem to have the potential to contribute to retention and completion’); and **Pennell & West** on the impact of higher fees on widening participation in HE in England, speculating that the 2006 £3K tuition fees will be off-putting for debt-averse lower SEG potential students.

3. **PROJECTED NUMBERS FOR UK HE BY 2010** (p 15): **HEPI** has updated its projections (HEPI Report No. 10) from an additional demand, arising from an increasing expectation of ‘going to college’ and from improving A-level results, for 180K-250K u/g places to 160K-240K within UK HE by 2010; plus up to a further 60K p/g places. Report 18 provides a further update: 160-240 drops to 107-134K; the drop reflects the levelling off at c35% of 18-year olds taking A-levels, but even an extra 125K students by 2010 will cost the taxpayer an extra £500m pa IF present HEFCE funding levels of c£3500 pa per student continue...

4. **ACCESS TO UK HE** (p 62) (and see Note 2 above re Pugsley, Longden, etc): See also A. **Forsyth & A. Furlong**, ‘Access to Higher Education and Disadvantaged Young People’, in *British Educational Research Journal* (2003) 29(2) 205-225 (a range of factors/barriers impact on ‘disadvantaged young people’ accessing HE, including school provision/achievement and family expectations/aspirations); and H.G. **Van Der Horst**, A. Sullivan & S.Y. Chung, ‘Social Class, Ability and Choice of Subject in Secondary and Tertiary Education in Britain’, in *British Educational Research Journal* (2003) 29(1) 41-62 (the children of professional and middle-class families, replete with social/cultural/economic capital, are more likely to end up as medics and lawyers (see Note 2 above), given this ‘comparative advantage’ (indeed, competitive advantage), and hence another barrier for ‘disadvantaged young people’...). The combined advantage of middle-class family ambition and of independent schools being better at playing the university admissions system is powerfully demonstrated in the HEFCE analysis of entry to top HEIs in 2001/02 commissioned by the **Sutton Trust** (www.suttontrust.com, articles/research page). Of some 30K entrants to the best universities almost 10500 were from private schools, but, strictly on the basis of A-level grades alone, about 7500 only should have been admitted; c3000 State school leavers with around 4 points better A-level performance missed out, partly because of not having the confidence even to apply to the elite HEIs and partly because (even if they did apply) their schools had been more cautious in predicting higher grades for them compared with the more optimistic (but equally inaccurate!) predictions of independent schools for their output. Clearly, the research will reinforce calls for OFFA (aka ‘OffToff’!) to have teeth, and provide ammunition for those seeking to change the timing of HE admission decision-making to after the A-level results are known... A major problem is that the hard sciences and modern languages seem to be following classics as

being increasingly dominated by private school applicants/students, as kids vote with their feet by not taking Physics and Chemistry, French and German, in the 6th Form. While **West & Gibbs** ('Selecting University Students: What can the UK learn from the American SAT?' in *Higher Education Quarterly* (2004) 58 (1) 63-67) do not share the enthusiasm of the Sutton Trust for the SAT, asserting that it is no more equitable than A-levels for determining entry to HE (both are stratified along social background, race and family income lines in measuring attainment-to-date rather than potential), they do call for 'profiling' (akin to Schwartz's 'holistic assessment') as the way forward in widening participation. See Note 27f re Bowen/SATs. **Usher & Cervenán**, *Global Higher Education Report: Affordability and Accessibility in Comparative Perspective* (2005, The Educational Policy Institute, www.educationalpolicy.org) rank the most accessible HE systems as Netherlands, Finland, UK, US, Canada and Australia; the most affordable as Sweden, Finland, Netherlands, Belgium, Ireland, Austria (US 13, UK 14). The UK is dragged down by the high cost of living and limited SFA, and not especially by tuition fees from 1997/98: the UK lags behind the US on affordability not because the UK now has fees, but because it is mean on loans compared to the high fees and high aid US system. That apart, the socio-demographic mix of UK (and US) students matches reasonably well that of the general population: Sweden, Germany and France are below the UK & US in accessibility because, despite low/no fees, they have relatively 'elite' student bodies. In short, affordability and accessibility are not necessarily linked, and (increased) tuition fees do not automatically damage accessibility. See also the EPI's *Changes in Tuition Policies: Natural Policy Experiments in Five Countries* (**Swail & Heller**, 2004) covering Canada, England, Australia, Ireland, USA: no simple conclusion that increasing/reducing fees decreases/enhances demand for HE since price is only one factor amongst many that interact to affect enrolment. Similarly, the EPI's *The Affordability of University Education* (**Swail**, 2004), on Canada and the USA: the 2005 Usher and Cervenán study referred to above broadens out this comparative affordability/accessibility study, but in terms of US: Canada, the former is relatively high-fees and high-aid, the latter low-fees and low-aid, with the former having a greater age participation rate overall while the latter in public policy terms provides a wasteful generalised and indiscriminate public subsidy. Another research project for the Sutton Trust is by **Blanden & Gregg**, 2005, *Intergenerational Mobility in Europe and North America*, LSE – Centre for Economic Performance: the UK & US have similar mobility, but much less so than in Canada and the Nordics; with mobility also declining for the UK 1970s generation compared to the 1950s, and this decline being c40% due to reduced educational opportunity for the less well-off ('bring back grammar schools' declared Sir Peter Lampl of the Sutton Trust!). See also **Machin & Vignoles**, 2005, *What is the Good of Education? The Economics of Education in the UK*: see 180 below...

5. **GRADUATE EMPLOYMENT IN THE LABOUR MARKET** (p 15) (See also Notes 17, 18i, 19 & 20 below): See also W.H.A. **Hofman & A.J. Steijn**, 'Students or lower-skilled workers: 'Displacement' at the bottom of the labour market', in *Higher Education* (2003) 45(2) 127-146 (there is substantial displacement as graduates end up in formerly non-graduate jobs). **Elias &**

Purcell have revised their figures for the personal rate of return from HE (*Times*, 20/8/04), calculating that 1999 graduates were now earning less (c10%) than 1995's crop at the same time (4 years) after graduation and speculating that it is all a simple matter of supply and demand whereby the extra supply of graduates in recent years will lead to 'an overall decline in the graduate premium' (and this is before the scheduled fee increases may also adversely impact on the l/t value of the then more costly investment...).

6. **CHARITABLE GIVING/FUNDRAISING IN UK HEIs** (p 45): UK HEIs can, and should, do better by way of fundraising, and especially from alumni, as in the USA; they need to become more professional and systematic in such friendrising & fundraising, and be helped by changes in the tax regime to encourage donations from older alumni better placed financially to give than younger cohorts; an extra £600m pa could be raised, worth £400 pa per u/g – Report of a task-force on voluntary giving to the HE sector, chaired by **Eric Thomas** (VC at Bristol University).

7. **GLOBALISATION/INTERNATIONALISATION, CONVERGENCE OR DIVERGENCE AMONGST HE SYSTEMS** (p 3/4): Convergence in the Azores or in the Bermuda Triangle? Broadly, if a belief in HE as a major driver of an internationally competitive economy is general amongst major OECD countries and hence pushes them towards the steady expansion of their HE systems, then at the same time pressures on public funding drive them towards finding more economic ways of delivering mass HE – 'cost-sharing' in shifting part of the burden from taxpayer to student/family via tuition fees; 'mission diversity' by funding fewer HEIs as research-active ('research selectivity'); 'the Bologna Process' as a means of standardising and, conveniently, shortening the length of degree courses; using further education institutions/community colleges to deliver more cheaply even than a 'T' only HEI the first years of 'the HE experience'; and possibly allowing 'privatisation' and 'deregulation' as a means of expanding the system and perhaps also providing a cheaper source of HE. See the attached diagrammatical representation of the convergence process driven by globalisation and the shared problem within OECD countries of financing mass HE systems almost entirely from taxation, especially at a time of aging national demographics (subsidised care for the elderly v free HE for the young!)... Dynamic, responsive, free(ish)-market at one end of the continuum v static statism at the other? Or is that just too simplistic? Note that the German constitutional court has declared (26/1/05) that German HEIs can charge tuition fees; the power to charge lies with the sixteen Länder, not with the Federal Government, which in 2002 tried to ban HEIs from levying fees. The six conservative states look likely to charge E1000-plus (\$1300, £700) from 2006. The Principal of Mannheim University is quoted as calling this decision 'a turning point... Germany is decades behind on this issue'. The shift to fees is likely to be accompanied by the introduction of low-interest loans (à la the UK). The IHE at **Shanghai Jiao Tong University** (via Google, 'world university rankings Shanghai') ranks 500 HEIs globally, as follows: Harvard, Stanford, Cambridge, Berkeley, MIT, CalTech, Princeton, Oxford, Columbia, Chicago... Tokyo (14)... Imperial (23), UCL (25), Edinburgh (47), Bristol (60), Sheffield (69), King's (77), M/cr (78), Nottingham (80)... The

continental European systems contribute the Swiss Federal Institute of Technology at 27, and then Utrecht at 39. The methodology probably gives disproportionate weight to science output, but, even so, the US dominance is total (including, within that, the hegemony of the private HEIs), the UK's relative strength interesting, and the poor European performance telling. Watch this space: Will publicly-funded Berkeley slip? Can Oxford & Cambridge hang on in the Top Ten? Will the recent merger of M/cr and UMIST push the new HEI higher up the Table within the first 100? For some provocative and polemical thoughts on the potential shape of HE by 2020 see Appendix I attached to these Notes... And now THES has produced its own 'World University Rankings' (5/11/04), based mainly on inviting 1300 academics world-wide to evaluate HEIs. Harvard came top with 1000 points from a maximum of 1000; next came Berkeley at 880; then MIT (790), Cal Tech (740), Oxford (730), Cambridge (725), Stanford (690), Yale (580), Princeton (560), ETH Zurich (550), LSE (485)... Imperial (445, 14th)... UCL (285, 34th)... Manchester (240, 43rd)... Sussex (200, 58th)... Warwick (170, 80th)... The US (20) especially and next the UK (8) dominate the top 50, then comes Australia (6). The Australian performance is, of course, spectacular for a relatively small nation in terms of top HEIs per million of population. Specifically with reference to the peer review element of the ranking, top comes Berkeley (665 out of 1000) and then Harvard (645), Oxford (560), Cambridge (540), MIT (485), Stanford (420), Tokyo (370), Princeton (355), Yale (345), Beijing (320): this highlights the competitive 'threat' from China (watch this space for 25 years or so...).

8. **UK HE STATISTICS** (p 13): At 2003/04, the size and shape of the UK HE sector was roughly as below...
- Over 2.1m students (c1.15m in 1990), of which around 1m are f/t u/g and over 55% female.
 - About 275K first degrees awarded (c10% Firsts, c45% 2i, c30% 2ii), and almost 85K p/g degrees.
 - APR (under 21) at 35% (c20% in 1990); HEIPR (18-30) at 44%.
 - 'UK HE plc' turnover at £17b, of which £9.7b on staffing (including c150K academics, with an average age of 42) and where 'the unit of resource' (annual spend per fte u/g) is some £5.5K (cf in 1989/90 it was c£7750 in 2001/02 prices!).
 - SSR – 1:14.5 in 1991/92, 1:18 in 2002/03.
9. **VOUCHERS AND A FREE MARKET IN HE?** (p 78): Colorado has become the first US State to introduce HE vouchers at c\$2400 pa per u/g in any public HEI within the State, with HEIs free to levy a top-up tuition fee. A cynical ploy to save on the HE budget at a time of increasing demand in a 'young' State by setting the voucher value unrealistically low, or the empowering of the student-consumer and an attempt to make public HE more responsive and accountable? Indeed, Steven **Schwartz**, VC of Brunel University and chair of the team reviewing university admissions

criteria/procedures (see pp 70-72, and Note 4 re West & Gibbs), has called for a similar voucher scheme to be introduced in the UK citing the Colorado scheme (*Financial Times*, 20/8/04), thereby bringing in ‘a market solution’ to replace Government/funding council quota control of HEIs which serves only to protect ‘the less popular institutions and courses’. And then the recently unveiled (September, 04) Conservative Party new HE policy also proposes a kind of voucher system... Meanwhile, in the 2004 USA presidential election campaign the Democrats have conjured up a funding package for public HE designed to address Middle America’s worries over *affordability* (\$10b more taxpayer funding if the HEIs keep tuition fee increases at RPI), while also funding a rather smaller sum of \$100m to encourage HEIs to enrol (and retain to degree completion) low-income and minority students – ie the issue of *accessibility*. The Brookings Institution calculates that the middle-income (\$50K pa) US family with two children faces in 2004 a bill of c\$9350 for public university tuition fees (up almost 10% since 2001, as against family income up by only 3%); an upper-income family (\$250K pa) has, however, seen family income increase by over 14%, as against Ivy League tuition fees at ‘only’ 8% (to c\$38K). The Democrats will reverse recent Bush Administration tax cuts for the rich and divert the Federal funds into cheaper HE and medical care for Middle America; the Republicans respond that this would undermine entrepreneurialism and any extra finance is unaffordable for the taxpayer. There is now even a campaign for free HE, for *all* students at public HEIs: the ‘Free Higher Education’ movement sees HE as a right, and costs the abolition of tuition fees at c\$30b. And, interestingly, both President Bush and his opponent have challenged ‘the legacy admissions’ process, calling for admissions to be only on merit and nothing to do with whether a parent is a donor alumnus. So, conceivably, the USA moves towards a Federal ‘regulation’ of tuition fees at State HEIs; in effect, the Europeanisation of US public HE! For an extensive review of the literature on ‘Econometric Studies of Higher Education’ see R.G. Ehrenberg at www.ilr.cornell.edu/cheri (click on ‘Working Papers’; it’s Item WP 29) (in covering the territory Ehrenberg notes the paucity of material on the financing of HEI physical capital assets).

10. **‘REGULATORY CAPTURE’** (p 57): If commercial HEIs really begin to steal significant market-share from traditional HE by cherry-picking profitable vocational courses and by extending their recruitment range to the 18-22 u/g, they will risk retaliation by the latter lobbying Government to restrict the use of taxpayer SFA in support of students attending for-profit HEIs lest tax money leaks back to shareholder pockets. Similarly, Government can impose tough entry hurdles via ‘regulatory capture’: for example, the EU policy on private HE requires commercial HEIs to finance library provision, academic tenure and collegial management/governance... And note that the University of Phoenix is to start recruiting ‘traditional’ 18/19 year old students, having progressively lowered its minimum age from 23 (indeed, a college specifically for 18-23 year olds has been opened as Axia College): Phoenix has grown by 30% in a year, to c210k students (including c110k at Phoenix Online). For a review of the development of private HE in Kenya, Israel, Vietnam and China see Issue 36 (Summer 2004) of *International Higher Education* (www.bc.edu/cihe). Meanwhile, however, Australia plans to encourage foreign HEIs to open up campuses, with Australian citizens able to

access State loans to attend them as for the local public HEIs (the first such HEI *might* be a Carnegie Mellon University campus in Adelaide): all this is, as it were, voluntary anticipation of the possible eventual GATs changes (see Appendix I to these Notes).

11. **FULL ECONOMIC COSTING** (p 51): And now a step in the right direction... From 2005/06 UK HEIs must price their research at the full economic cost (including the cost of space) to the Research Councils and Government departments, and hence some £120m extra annual funding will flow from the RCs alone to the research-intensive HEIs: good news for Oxford, Cambridge, Imperial, UCL, King's... Moreover, the Government has announced an immense increase in spending on UK science: the present 1.86% of GDP will grow to 2.5% by 2014; the current £3.96 pa will reach £5.4b by 2007/08; and some of this extra money really will find its way towards financing the general laboratory infrastructure costs of research-intensive HEIs which hitherto have been raiding undergraduate teaching and the budgets of non-service departments to subsidise inaccurately-costed and under-priced science research projects. (Whether, of course, such Government (as opposed to private sector) R & D spending is effective, and hence is *vfm* is an open question: see Terence **Kealey**, The Economic Laws of Scientific Research (1996) and **OECD**, Sources of Economic Growth in OECD Countries (2003); both challenge the neo-classical endogenous growth theory that assumes higher public R & D spending automatically improvise national economic growth.) Similarly, the EU is encouraging a 3% of GDP spend on R & D, with one-third from the public sector, to make Europe more competitive with the USA and Japan: the EU's 'Framework 7' R & D funding programme for 2006/2011, for example, proposes to increase spending from E 17.5b for Framework 6 to E 30b, and there is talk of a European Research Commission to stimulate pure science research (the UK HEIs, as the best in Europe (?), may well win a good chunk of such extra monies, but that is real progress only if the EU pays for FEC overheads, which, at present, it does not...). See Note 21.
12. **THE WEKO REPORT** (p 68): The **Weko** Report is now also available as a HEPI Report (No. 11 in the booklet series) discussing 'the culture and practice of university education' and noting that 'a continuing, albeit attenuated, persistence of elite thinking, policy, and practice' and 'elite practices concerning entry and progression have permitted the UK to maintain university completion rates [at c 85%] that are substantially higher than those of the US [at c 65%]...' (para. 12). This is partly a matter of 'a much closer alignment' of 16-18 secondary schooling with HE entry needs and of the sharper focus of the single-honours degree system, but such UK (over?) rigidity as against US (excessive?) flexibility means trading off narrower accessibility to HE in the UK in return for greater completion compared with the opposite trade-off made in the US (and in most European HE systems): 'Unrestricted access to university is not native to the social democratic tradition of the UK, or to Britain's larger culture'.
13. **UPDATE ON US ACCESS DATA** (p 63):

- a) **Carnevale & Rose** (2003, ‘Socio-economic Status, Race/Ethnicity, and Selective College Admissions’, New York: The Century Foundation) analyse the 1992 high school graduation output as the input to HEIs. Only 9% of the lowest SES quartile progress to top-tier HEIs; the top quartile supplied 75% of those at such HEIs.
- b) **Adelman** (1999, US Dept of Education) records that 86% of high-SES, high-academic performance at high schools complete their degree course; *cf* only 62% of the low-SES, high-academic performance cohort and a meagre 13% (*sic!*) for high-SES, low-academic performance students.
- c) **Astin & Oseguera** (2004, ‘The declining “equity” of American higher education’, The Review of Higher Education 27(3) 321-341) calculate that the SES composition of student intakes at the most selective HEIs is changing: the top-SES quartile is supplying more students (55% in 2000) at the expense of the middle-quartiles (33%), while the lowest-quartile remains stable (at 13%). This last piece of data is perhaps more an ‘affordability’ issue rather than one of ‘access’? In essence, rich kids get to go to posh colleges; a few poor kids also if given enough SFA; but Middle America is being squeezed by the high tuition fees at such top HEIs; and all this is irrespective of ability/achievement.
- d) **Mumper**, in a Spring 2004 Paper for the US/UK HE Social Inclusive Project (Sutton Trust) noted that attempts are being made to keep HE affordable for Middle America, probably at the expense of Poor America: in 2001 23% of total State SFA grants went as merit scholarships (10% in 1991), but lower-SES and ethnic minority students coming from less well-resourced schools and much less likely to win such merit awards (see also pp 54 and 65). Thus, as Mumper sums it up, the 1960s ‘Great Society Design’ of ensuring the disadvantaged could experience HE has led to ‘Twenty Years of Policy Change: Goal Substitution, Subsidy Creep, and Diminished Access’; affordability has indeed trumped access and ‘things are no better, and perhaps worse, than they were 25 years ago’. There is also ‘the increasing economic segregation of higher education’, as noted in a) above: ‘the sorting and redistribution of higher education according to economic class’ (recall Halsey’s ‘important cross-national hypothesis’ on p 21!).
- e) **Baum** (sbaum@collegeboard.org), at the same Spring 2004 conference, made from the US experience the Nick Barr (pp 21 & 69/Desai, p 80) UK point: ‘holding the sticker price of college to the lowest level possible is [not] necessarily the best policy for promoting either equity or efficiency... General [indiscriminate taxpayer] subsidies, in the form of low tuition for all students, do not allow this sort of equitable and efficient targeting ... the perpetuation of inequality by the education system is more likely to be mitigated by a policy that diffuses the benefits, leaving the price out of reach for the neediest students and leaving institutions with insufficient resources to

provide quality educational experience for a diverse student body'. **College Board** 2004 data reinforces this message: a) in 2004 \$s, the cost of an annual package for tuition and accommodation at a private 4-year HEI has increased from \$12850K in 1976/1977 to \$17500K in 2004/2005, with the corresponding figures for a public HEI being \$6250 and \$11350; b) this means that the net cost of a year at college as a percentage of family income 1989/1990 to 1999/2000 has increased by barely a few percentage points for each income quartile; c) BUT crucially the proportion of the grant aid in relation to loans has declined and hence the cost of college certainly feels more expensive, being less of a taxpayer 'gift'; d) and even if HE is still a sound personal investment in terms of future enhanced earnings. Much, of course, depends on 'lifestyle choices; and whether Middle America values college as highly in 2005 as in, say, 1965 in terms of alternative spending on cars, entertainment, holidays, etc. See also *A Primer on Economics for Financial Aid Professionals* (2004) written by Sandy Baum for College Board, where she discusses 'the distinction between ability to pay and willingness to pay... people with sufficient resources to pay for college have become more resistant to paying' – this is the subjective issue of 'affordability' where the decision 'clearly depends on values, priorities, and willingness to sacrifice other goods and services'. Baum also discusses the complications of defining family income, especially taking into account divorced parents, low-cost and high-cost parts of the USA, capital assets, savings home, equity, pension funds, etc; and hence the potential problem of a marginal increase in income being 'taxed' at 50% in terms of a loss of financial aid... For more on SFA see the **NASFAA** (National Association of Student Financial Aid Administrators) material at www.nasfaa.org. The loan burden on US students has grown steadily in recent decades, as around half now borrow money: of those who do borrow but also do complete their courses, however, the default rate is low (about 2%), but for those who borrow and then drop out (some 20% of borrowers) c25% default. Overall, therefore, barely one student in 100 borrows, completes and defaults, while 2.5 in 100 students borrow, drop out and default. (See www.highereducation.org/reports/borrowing/index.shtml.)

14. **HIGHER EDUCATION ACT 2004** (p 25): The HE Bill duly became an Act in the Summer of 2004, the original tuition fee figure remaining unchanged as the Bill progressed through the Lords. Clearly, the global player UK HEIs now need, sooner rather than later, to agree with Government 'a managed exit' from the public funding straightjacket which will otherwise tip them into European levels of mediocrity within 5-10 years. Already the certainty of the higher fees by 2006 has stimulated talk of increased student (and indeed parental!) consumerism, especially in the context of a teaching year (allegedly) reducing in length as students in the Summer Term are fobbed off with a couple of revision classes and left to their own devices to prepare for end-of-year exams, while academics at the elite HEIs get on with their research from end-March to early-October (see *Guardian Education* 6/7/04). Critics claim that the teaching year is now merely a miserable 17 weeks (well

short of the contact hours expected by ‘the Bologna Process’ – see Note 15 below). For 2006 entry it appears that all HEIs except three will be charging the full £3,000 tuition fee (of the three exceptions, Leeds Met will levy £2,000, and two others £2,700). The range of bursaries on offer is wide, as are the imaginative freebies – from laptops to stethoscopes, gym membership to book tokens. If the bursaries are a version of US need-aid, the University of Manchester is the first to go for US style merit-aid by offering £10,000 (*sic!*) for top applicants otherwise heading for Oxbridge/UCL/Imperial. The 2005 European Court judgement in Bidar may yet mean that more ‘poor’ EU students will get not only their fees paid by the SLC, but also now be able to access SLC loans for the first time and even the bursaries on offer from HEIs...

15. **FOUNDATION DEGREES AND THE BOLOGNA PROCESS** (p 64): Yet the UK’s keenness on such 2-year Foundation Degrees is claimed by some supporters of ‘**the Bologna Process**’ (leading to ‘the European Higher Education Area’ covering some 40 countries by 2010) to be anti-European, given that the new norm across Europe is meant to be the ‘3+2’, ‘BA+MA’ (a *minimum* 3-year undergraduate degree and a 2-year masters, and where, in respect of the latter, the UK is also out of line in having the 1-year masters). So, a welcome richness of ‘diversity’ versus the bureaucratic push towards stifling ‘harmonisation’ as perhaps the EU bureaucracy picks up on the Bologna ‘public international soft law’ and ‘hardens’ it into EU Directives? Or the Bologna Process as the struggle to maintain crucial standards in the delivery of HE as a public good? Or Bologna as an utter irrelevance in the face of the globalisation of HE? Or UK HE left uncomfortably placed between the Anglo-American model and the Bologna/European model, unless the former in fact infects the new EU accession states and the UK is then less isolated as ‘Old Europe’ confronts ‘New Europe’ in another context? Moreover, the Foundation Degree emphasises the perhaps crucial role (so far, and probably to be increasingly) performed by FE in providing great and inexpensive flexibility within tertiary education and not least acting as a buffer to supply HE in its expansionist phases while coping with those unable to access HE in its restrictive phases! See also **HEPI Report 13**, ‘Credit Accumulation and Transfer and the Bologna Process: an Overview’, which is concerned that the CATS developments ‘are focussing on increasingly bureaucratic structures’ as a result of ‘the ambition in Europe to create generic, all embracing, systems... [and hence] running the risk that the whole edifice will topple over because of its complication’ (the Report especially notes the simpler CATS arrangements in California and British Columbia, facilitated by ‘a degree of trust’ by Government in HE that seems to be missing in Europe...).

16. **INTERNATIONAL COMPARISONS** (p 29):
- Johnstone & Shroff-Mehta**, ‘Higher Education finance and accessibility: an international comparative examination of tuition and financial assistance policies’ (Chapter 3 in H. Eggins, Globalisation and Reform in Higher Education, 2003, SRHE/Open University Press) provide a neat and concise survey of ‘cost-sharing’ in a wide range of countries as the financial burden of HE almost everywhere partially shifts from taxpayer to student/families via increasing tuition fees, albeit that often heroic efforts are made to avoid calling the student/family contribution anything as crude as a fee! A key issue is whether the ‘fee’ is payable upfront (and then in many cases by kind parents), or deferred and paid only later upon graduation and once earning (and hence probably by the former student); and another key dimension is whether or not the ‘fee’ varies according to the cost of the degree course, market demand for the course, and the likely future earnings for the graduates from the course. Similarly, **Johnstone** (see www.gse.buffalo.edu/org/IntHigherEdFinance) in a Paper on ‘the politics of cost-sharing’, comments: ‘The politics of cost-sharing, like the politics of most everything else, is a veritable stew of differing priorities, ideologies, self-interest, trust (or the absence thereof) in government, and belief in the capacity of government to implement policy with integrity and cost-effectiveness... In the end, the most compelling case for cost-sharing in higher education, at least as an appropriate policy direction, is the argument that governmental tax capacities are limited... [and that] higher education is no longer (if it ever was) near the head of the queue of public needs...’. That said, some public funding is still crucial if HE is to fulfil its broader missions of ‘basic research’, ‘the presentation and transmission of culture’, and ‘the strengthening of civic society’, over and above providing via undergraduate teaching ‘the private returns captured in higher earnings’ for (most) graduates. (See also Baum’s work on student debt levels in the US – Note 13e, above.) More broadly, the Journal of Economic Perspectives (Vol. 13, No. 1, 1999, 3-116) devoted itself partly to a ‘Symposium on The Economics of Higher Education’, and is well worth locating for material by Clotfelter, Winston, McPherson and Schapiro, and Ehrenberg.
- a. **Ehrenberg** questions whether engineering and the physical sciences are not now disproportionately expensive relative to the extra kudos that expenditure buys for the HEI (p 104); and stresses the near-impossibility of properly costing space-utilisation within HEIs, let alone implementing a sensible space-allocation policy via a ‘shadow-prices’ mechanism .
 - b. **McPherson and Schapiro** justify the expense of academic tenure as crucial to protecting academic freedom which, in turn, has broad economic benefits (as well as social/cultural ones), although it may not need to be as prevalent as it is across all types of US HEIs (pp 85-98).
 - c. **Clotfelter** (pp 3-12) discusses ‘the familiar but curious economics of higher education’, including the mystery of teaching and ‘how imperfectly that process is understood’ (especially given the complication of the students themselves needing to make an input, and

also benefiting from their peers making a similar input); and the fact that the HEI's 'principal group of employees are semi-autonomous professionals, some of whom have only a minimal attachment to their employer', and that these faculty have both tenure and no mandatory retirement age... See also C.T. Clotfelter, 1991, *Economic Challenges to Higher Education* (The University of Chicago Press), and, by the same author, *Buying the Best: Cost Escalation in Elite Higher Education* (1996, NBER): in the latter it is argued that the drivers of cost-escalation in US HEIs (using the case-studies of Chicago, Duke, Harvard, Carleton) are the financing of more graduate students, the provision of more SFA, more and more expensive research (especially in the sciences), greater administrative spend (eg increased external regulatory demands, new sub-specialisms such as in-house legal services), reduced teaching load for faculty and hence extra faculty needed (with better pay and benefits), and 'unbounded aspirations' in terms of the quantum and quality of the HEI's activities and its services to staff and students.

- d. **Winston** (pp 13-36) examines 'the awkward economics of higher education' and compares HEIs with real, truly commercial businesses; he argues that a business model is not especially helpful in analysing the economics of higher education because:
- HEIs are non-profit enterprises with 'fuzzy objectives' operating in a 'trust market' where the 'consumer' is remarkably under-informed when 'buying' the HE 'product'.
 - HEIs subsidise their customers, production cost exceeds price – 'a defining economic characteristic of higher education, both public and private' – and this gap by way of 'student subsidy' (cost minus net price) is mainly covered by reliance on taxpayer support for public HEIs and on donor/alumni support for private HEIs.
 - HEIs rely on customer inputs ('students educate both themselves and each other'), and need to maintain (or even enhance) 'peer quality' by utilising SFA to maximise entry grades and by carefully controlling who the customers are (selecting students, rather than recruiting them, and hence a prestigious HEI would never expect to meet all demand!).
 - Indeed, the peer-effect may be so strong that the HEI can get away with reduced teaching inputs (using cheaper graduate assistants than full-time, permanent, tenured faculty) without reducing quality of degree output; in HEIs where there is an anti-academic culture amongst students this policy clearly could not work!
 - 'The bottom line for any school [HEI] is its access to donative wealth [alumni-giving] that buys quality and position'.
 - Growth in demand is not necessarily to be welcomed: the US HE industry faces a serge in customers over the next decade, varying from

a 10% to 30% growth across different states: will the taxpayer spend the same amount per student as now, at a cost of up to \$30b; or will the HE product/student experience be trimmed (the declining unit of resource syndrome in the UK over the past 15 years)?

17. **RATES OF RETURN/HUMAN CAPITAL THEORY** (pp 14-17): see also Note 5 above and Notes 18i, 19, 20 & 29 below. There is comprehensive, detailed and fascinating material on the rates of return to HE in European countries, and on the economic theory of how human capital enhanced by HE contributes to GDP growth, at www.etla.fi/PURE. This site also provides a link to the World Bank – Economics of Education site, where there is a Paper by **Psacharopoulos & Patrinos** on ‘Rates of Return to Investment in Education: A Further Update’: they review a huge amount of literature; note the complexity (if not virtual impossibility) of accurately measuring the *social* rates of return arising from education (given the range of externalities/spill-over benefits involved), and give a best guess global average of c11% for HE (8.5% in OECD countries); and give for the *private* rate of return c19% (c11.5% in OECD countries). The UK estimates are at the higher end of the OECD range but may be falling: the UK graduate premium may be eroding rapidly, from the £400K used by Government to justify the £3K top-up fee, to some £140K (or a 7.3% personal rate of return for males; 10.3% for females); see **O’Leary & Sloane**, University of Swansea, 2005. The rate may even be negative for males graduating in the arts/humanities at -3%; the best figure is 17.4% for females in education (being a teacher clearly beats other under-paid jobs available to female non-graduates). That said, there is a differential not only across subjects and gender, but also (in a favourable direction) for the highest ability graduates from elite universities who seem to be doing as well as graduates in previous generations (they continue to have the social/cultural capital as the children of the middle classes colonising the upper end of the HEI range). The increase in business studies graduates (over 40K of 2003/04 graduates overall at 292K, or some 14%; compared to c9% a decade ago) reflects the result of a much more mature process of ‘massification’ in US HE – over 50% of students are in business studies. The other growth areas of a mass HE system are a doubling of students in creative arts/design, computing and in nursing; there is a small decline in engineering, physical sciences, and education. The **PURE** material (2001 ‘Final Report’) is substantial and, in analysing the *private* rates of return across 15 European countries, notes: 1) The rates ‘differ considerably’, show ‘no signs of convergence’, and present in all cases ‘an unambiguous positive effect’; but there remains ‘considerable uncertainty with regard to the actual return that individuals can get from their investment in higher education’ even if the expansion of HE in recent decades has not led to a decline in the private rate of return. 2) The alternative ‘screening theory’ role of HE is noted, and evidence from France and Spain cited as undermining this hypothesis. 3) The more HE is subsidised by no/low tuition fees, the greater the enrolment rates; but enrolment does not seem to be related to potential students’ assessment of rates of return nor to the opportunity cost to them of being in HE as opposed to earning money. 4) Across the 15 countries there remains ‘the persistence of social inequalities [in access to HE] despite extensive public financing [of HE]...[and] there is little evidence on low fees and [the provision of] maintenance grants having

encouraged the participation of children from poor families...'.5) A shift from public funding to a greater student/family contribution to the cost of HE via higher tuition fees (Johnstone's 'cost-sharing') is called for on the basis of economic efficiency *and* social equity, although this may need harmonisation across the EU countries lest students play the system by studying in a no/low fee HE country and then working in a high graduate premium country! 6) Like Wolf and Grubb & Lazerson the PURE Report asks in chapter 8 'Do we need all that Higher Education?'... (See Note 18i re Wolf and Note 20 re Gibbs & Lazerson.) The Report also contains easily accessible comparative data, such as...i) GDP % spent on HE: UK 1.3, Sweden 2.2, Germany 1.4, France 1.0, Italy 0.7. ii) Annual public spend per 1996 student (18-24 cohort) in Euros: UK 5000 (down 30% from 1980), Sweden 9500 (up 90%), Denmark 11700 (up 75%), Germany 10400, Holland 7700, France 4300, Italy 2000, Spain 1100. iii) API (18-24) in 1996: UK 36% (up 157% from 1980), Sweden 35% (up 56%), Norway 44% (138%), Finland 51% (126%), Spain 36% (119%), Italy 33% (67%), France 36% (99%), Germany 28% (78%), Holland 32% (51%)...only the UK seems to have 'massified' at the expense of 'the unit of resource'! That said, for the UK it is indeed tremendous progress from the 1930s when England had merely 1 student per 1000 of population, compared to Germany at 1:604, France at 1:480, the USA at 1:125 (Scotland within the UK was, of course, closer to Germany and France given that, like the US, it has always had greater faith in the value of readily accessible education for all than the English: with reference to universities, for example, from the fifteenth century Scotland possessed Edinburgh, Glasgow, Aberdeen and St Andrew's to trump Oxford & Cambridge, which were not reinforced by UCL and Durham until 1825 and 1833 respectively! See also the **EUROSTUDENT** Project data.

18. **FOR ADDITIONAL REFERENCE MATERIAL, SEE...** (pp 30/31):

- a) **Belfield & Levin**, 2003, *The Economics of Higher Education*. This is a collection of 37 seminal papers, mainly concerning US HE and (unevenly) covering: the economic benefits of HE, its costs of production, its funding, student demand for HE, markets and competition within EH. Notably the collection includes Kenneth Arrow's 'Higher Education as a filter' on HE as a convenient screening device for employers where HE does not enhance productive capacity but merely identifies folk already possessing it.
- b) **Raines & Leathers**, 2003, *The Economic Institutions of Higher Education: Economic Theories of University Behaviour*. See below (m) for detail.
- c) **Creedy**, 1995, *The Economics of Higher Education: An Analysis of Taxes versus Fees*.
- d) **Kahlenberg**, 2003, *America's Untapped Resource: Low Income Students in Higher Education*.
- e) **Barr**, 2005, *Financing Higher Education*. This book explores the development of higher education funding policy in Britain over almost twenty years, the time it has taken to get from the sensible proposals for funding higher education from the academic pioneers (Nicholas Barr of the

LSE and the late Iain Crawford) to something approaching a step forward by way of the Higher Education Act 2004 and the charging of modest tuition fees. The assessment of the Act is: the beginning of a process to correct ‘the incomplete reforms of 1997’, but with the significant weaknesses that the £3,000 fee cap if maintained for too long will not succeed in introducing an appropriate level of competition amongst HEIs and hence will not ‘ensure that the end of Communism is irreversible’ (and might even, should the cap be ‘too low for too long’ in fact ‘restore central planning by the back door’). In addition, the White Paper was too timid in not reducing ‘the interest subsidy on student loans in order to release resources for the access strategy’. Thus the White Paper did not get us quite as far as the Barr/Crawford utopia for the sensible funding of mass tertiary education: ‘Variable fees are essential for quality and diversity [part way there]; in the interest of access, however, fee charges should be deferred through a loan entitlement [done]; loans should have income-contingent repayments [done], and should attract an interest rate broadly equal to the government’s cost of borrowing [not yet]’.

Overall, however the 2004 Higher Education Act ‘is a cause for celebration’, even if this new legislation ‘is only a way station, not an end point’. At least it shows that some ‘lessons from economic theory’ have been learned: ‘The days of central planning have gone’, ‘Graduates should share in the cost of their degrees’, ‘Well-designed student loans have core characteristics (income-contingent repayments, large enough to cover tuition fees and realistic living costs, charging an interest rate related to the government’s cost of borrowing)’, ‘The balance between market and state must be achieved’. Overall, ‘The logic is clear: Technological advance requires diverse, mass higher education. But mass higher education collides with fiscal restraints; thus graduate contributions are essential for reasons of macro-economic efficiency. Equally, diverse higher education implies that competition plus consumer and producer choice should replace central planning for reasons of micro-economic efficiency; it also implies that price signals (i.e. variable fees) are useful. Equity considerations support these efficiency arguments: without graduate contributions the system is regressive.’ The interesting question now is how long it will take the ‘higher education as a free public good’ countries in mainland Europe to catch up with the progress made by England (and, with less certainty, Wales) – note some German Länder will be charging E1000 (c£650) from 2006 for HE annual tuition at their HEIs.

If Barr were not such a decent chap, the book would have been an angry one (‘why on earth did it take you all so long to see the obvious?’) and a much less modest one (‘I told you so a long time ago!’). Barr allows himself only one very mild, and entirely accurate, page of criticism for certain players in the funding of higher education debate, some of whose motives ‘do not bear close scrutiny’: ‘Many politicians opposed loans in the late 1980s; having got used to that idea, they opposed the introduction of fees in 1997; and the opposition for the 2004 Legislation to introduce variable fees was strident’:

- The Treasury opposed expansion in the early 1990s on the grounds that its cost-effectiveness was unproven; and we were told to our faces by Treasury

officials in early 1990 that improving access was not an objective of Government policy.

- The Education Department argued against income-contingency loans in 1989 and 1990 on the mistaken grounds that they could not be implemented, and opposed the abolition of blanket interest subsidies in 2003 on the mistaken grounds that the policy would harm the poor and/or that targeted interest subsidies would be expensive to administer.
- [and perhaps most damningly] Vice-Chancellors (with a few honourable exceptions) continued to argue for the status quo. Their underlying policy was public funding, supported by personal contacts between Vice-Chancellors and their connections in Government and administration. In clinging to this elite-to-elite approach, the Vice-Chancellors as a body failed even to do the one thing on which the entire sector could agree – to promote the importance of higher education to the country as a whole – and thus failed to create the ground swell of political support necessary to sustain public funding.

So, a sorry tale of 20 years of botched policy-making, but at least one with a half-happy ending. As it happens, the HEFCE infrastructure allocations just announced (£65-75m each for Oxford and Cambridge, Imperial and UCL, Manchester) and the similarly recently announced 80% of Full Economic Cost for research council projects, along with the 2008 RAE (probably) skewing even more money to even fewer HEIs as the research elite and such HEIs also hoovering up precious overseas students at the expense of uneconomic UK places (just as Barr/Crawford predicted in 1997), *may* even mean that ‘top’ universities can just about muddle through financially until the £3K is reviewed in 2009/10 and, hopefully, is at least doubled.

See also ‘Higher Education Funding’ in the Oxford Review of Economic Policy (2004) 20 (2) 264-283, where Barr argues: for the Anglo-American HE Model (diversity amongst HEIs) and against the Scandinavian HE Model (homogeneous HEIs); against central planning of HE; for greater cost-sharing by the taxpayer with the student once graduated and then able to repay income-contingent/unsubsidised loans; and for HEIs charging variable tuition fees. His Table 1 (p 277) is interesting in showing that the UK needs to increase HE spend as a % of GDP but that doing so by increasing the private spend will not necessarily constrain access to HE... OECD average for total spend on HE in 2000, 1.7% (0.9% public, 0.9% private) and 2001 entry rate to HE at 47%; cf respective figures for UK (1.0, 0.7, 0.3, 45), US (2.7, 0.9, 1.8, 42), Australia (1.6, 0.8, 0.7, 65), Japan (1.1, 0.5, 0.6, 41), Korea (2.6, 0.6, 1.9, 49), and Spain (1.2, 0.9, 0.3, 48). (See Johnstone’s comparative material on financing HE and student loans/grants referred to in Note 16 above.)

- f) **St John & Parsons**, 2004, *Public Funding of [US] Higher Education: Changing Contexts and New Rationales*.
- g) **Buchel et al**, 2003, *Overeducation in Europe* (see Notes 19 & 20 below).
- h) **St John**, 2003, *Refinancing the College Dream: Access, Equal Opportunity and Justice for Taxpayers*.

- i) **Becker**, 1994, *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*. (See also **Machin & Stevens**, ‘The Assessment: Education’ in the Oxford Review of Economic Policy (2004) 20 (2) 157-172, who conclude that, with reference to ‘which education policies really matter for educational outcomes’, more research is needed...; and **Wolf**, ‘Education and Economic Performance: Simplistic Theories and their Policy Consequences’ (pp 315-333 of the OxREP issue referred to above), who concludes: ‘The current political consensus concerning education’s contribution to economic performance has generated simplistic policies with substantial deleterious effects’.)
- j) **Goldman & Williams**, 2000, *Paying for University Research Facilities and Administration*. See Note 21 below.
- k) **Cook**, 1998, *Lobbying for Higher Education: How Colleges and Universities Influence Federal Policy*. (HE Associations present in Washington: 1956, 44; 1996, 221! But, crucially, there are ‘The Big Six’, of which the ACE (American Council on Education) is the umbrella organisation located at One Dupont Circle: (1996 figures) \$30m budget, 1800 member HEIs, 175 staff, founded 1918...)
- l) **CSHE/OxCHEPS**, 2004, Symposium on the Financing of and Access to US and UK HE: Papers at the ‘Papers’ page of the OxCHEPS website (Item 15).
- m) **Raines & Leathers** discuss the economic analysis and economic models of the university provided by Adam Smith in 1776 (advocating greater competition in a market ruled by student-consumer sovereignty) and by Theodore Veblen in 1918 (business values and excessive competition among HEIs distorts ‘the higher learning’), with John Stuart Mill’s mid-C19 writings deemed somewhere in between and due note being taken of David Riesman’s 1968 and 1980 ‘student consumerism’ thesis, as well as of the 1970 Buchanan-Devletoglou imperfect market/producer-oriented (see * below) and the 1980 Garvin prestige-seeking models of HE/the university, and then of the 1990s academic capitalism/entrepreneurial university/commercialisation model (Etzkowitz, 1998; Slaughter & Leslie, 1997; Clark, 1998) - which takes us back to Smith’s market forces and Veblen’s fear of such ‘educational enterprises’! See also **West** on ‘The Economics of Higher Education’ in Sommer, 1995, *The Academy in Crisis: The Political Economy of Higher Education*. [* **Buchanan & Devletoglou** dedicate their book (‘Academia in Anarchy: An Economic Diagnosis’, 1970) to ‘The Taxpayer’! Their work is a reaction to the ‘revolting students’ (and weak academics) of the late-1960s, especially at the LSE and at UCLA where they had both held posts as economics faculty, and they duly admit that they ‘write’ (perhaps rant!) ‘from indignation’. Thus, they set out the problems of HE as ‘a unique industry’ in chapters entitled ‘Students: Consumers Who Do Not Buy’, ‘Faculties: Producers Who Do Not Sell’, and ‘Taxpayers: Owners Who Do Not Control’. They note that ‘free tuition is a strange public

subsidy' which limits inter-university competition (echoes of Smith), and conclude by (incorrectly) predicting the end, amidst chaos and anarchy, of 'the massive university monolith...this Clerk Kerr monstrosity ['the multiversity']...': in fact, by the early-1970s students had slunk back into apathy and stopped rebelling! Another analysis from the early-1970s is **J. Maynard**, *Some Microeconomics of Higher Education: Economies of Scale* (University of Nebraska Press, 1971)]

n) **D.S. Massey** et al (2002), 'The Source of the River: The Social Origins of Freshmen at America's Selective Colleges and Universities', and **Bowen & Bok** (2001), 'The Shape of the River', discuss affirmative action for ethnic minorities and their admission to US HE.

o) **Machin & Vignoles** (2005) What's the Good of Education: The Economics of Education in the UK (Princeton). This book acknowledges that HCT 'remains the dominant paradigm today', viewing HE as 'an investment good' (cf 'a consumption good' or 'a status good'), also cf signalling and screening theory. The book identifies 'a significant rise in educational inequality' as the massification of HE has been concentrated on the children from the higher SEGs – 'a rise in inequality across generations as children from more-educated (and high-income) parents have increasingly colonized the upper echelons of the education system' (about 50% of children from higher groups enter HE, compared with less than 20% from lower groups – but better than 1960 at 27% and 4%, 3_ : 1 rather than 6_ : 1). This means decreasing intergenerational mobility: 'family background matters more now than it did in the past'; 'parental income has become more important in determining participation in HE'; 'UK society has actually become less mobile in economic status over time'; 'simply expanding the UK HE system in the 1980s and 1990s did not narrow the socio-economic gap'. The personal rate of return (seen as high in the UK) may simply reflect the high degree of wage inequality in the UK labour market. And certainly the PRR varies hugely by subject, HEI and gender (a justification for variable tuition fees), averaging 13.87% (cf the SRR at c 10.98%). Moreover, 'the incidence of over-education in the UK is increasing', especially amongst arts/humanities graduates (37% of the UK workforce is overeducated, compared with 18% undereducated). Assessing whether HCT or the signalling/screening hypothesis best explains HE is very difficult and 'the balance of evidence emerging from this debate leads to an inconclusive perspective on which theory is more appropriate': skill gains v certificate gains, new productive skills v credential advantage.

19. **MAYHEW & KEEP** (p 13): The Government's problem with data-driven/evidence-based policy-making is also illustrated by the careful review and critique of its 50% HE target in **Keep & Mayhew** ('The Economic and Distributional Implications of Current Policies on Higher Education', Oxford Review of Economic Policy, 2004, 20(2) 298-314). They refer to 'ambiguous and contradictory' evidence providing 'a less than wholly robust foundation

for policy’: doubting, like Wolf and Grubb & Lazerson (see Note 20 below), that there is any demonstrable link between expanding HE and future economic success; querying whether there really is a growing demand for graduates (accusing the Government of using ‘incorrect’ figures, and asserting that the skills gap is for Level 3 competencies – plumbers, mechanics, electricians, IT folk - and not in Level 4 humanities/social studies degrees); suggesting that Government HE policy will actually worsen this Level 3 craft/technician shortage, while being ‘an expensive solution and one that is ultimately dysfunctional’ even if to an extent Level 4 vocational degrees *may* partially fill a Level 3 gap. Nor, they argue, is Government HE policy in terms of widening the participation of lower socio-economic groups likely to be successful (‘contentious and problematic...misdirected’), especially with regard to their access to elite HEIs and thence to ‘top’ jobs which require middle-class social/cultural capital (see Longden in Note 2 above). Indeed, for those not going into HE at all their place in the labour market may well be crowded out by an excess of graduates and they may be forced towards the poor pay-low job security-limited job satisfaction end of the job market (‘The implications for inter-generational social mobility are stark...’). Thus, ‘policy-makers have constructed for themselves something of a trap, albeit one that may take a while to spring shut’. The References list supplied by Keep & Mayhew is usefully comprehensive. (See Notes 5, 17 & 20.) [Moreover, Level 3 jobs – lift technicians, electricians, heating engineers, etc – are impossible to offshore, unlike, say, routine accountancy skills in completing tax forms, software design/development, many banking and investment management processes, pathlab work, and litigation research as Level 4 graduate skills which can be supplied remotely from a cheap-labour/highly-educated developing economy such as India to an expensive-labour/services-based rich economy such as the UK: see www.aomonline.org. In Felstead/Gallie/Green (2002), ‘Work Skills in Britain, 1986-2001’ (DfES/SKOPE), it is estimated that 30% of jobs need a graduate, amounting to 4.2m such jobs for the 4.8m aged 20-60 with a degree.]

20. ‘**THE MISMANAGEMENT OF TALENT**’ (p 16): **Brown & Hesketh** review the ‘promise’ of ‘the knowledge economy’ as a ‘high skills, high wage economy’ (‘a world of smart people, in smart jobs, doing smart things, in smart ways, for smart money...’!). They conclude that the expansion of HE dumps graduates ‘in a competitive scramble for managerial and professional jobs that will leave many of them disappointed...[leading to] underemployment...to unfulfilled personal and social expectations’. A knowledge-based economy (KBE) probably needs only 20-30% ‘thinking’ workers as opposed to 70-80% ‘serving’ or ‘making’; there is no KBE-driven increased demand for graduates and hence there will be ‘increasing market congestion’ as ‘labour market realities fail to fulfil social expectations’, which will reinforce the premium on social capital as the ‘commodification of the self and family background’. Moreover, ‘the top vocational prizes go to the graduates from the elite universities’. B & H call for ‘a national debate as the knowledge ‘dividend’ associated with a university education may be declining at precisely the time that students and their parents are being encouraged to see education as a private investment rather than a public good’. (See Notes 5, 17 & 19.) **Grubb & Lazerson** (2004) in *The Education Gospel: The*

Economic Power of Schooling argue from US experience along similar lines to Wolf (see Note 18i) and to B & H, referring to ‘the allure’ and ‘the fallacy’ that ‘more schooling for more people is the remedy for all our social and economic problems’; lamenting that supposed preparation for the workplace squeezes out ‘civic education and learning for its own sake’; and suggesting that ‘the focus on schooling as a mechanism of equity has reinforced social inequality’. This hyping of vocationalism and credentialism leaves the USA ‘caught in a labyrinth without an exit’, clinging to ‘the Education Gospel’ and relying on ‘the naïve human-capital perspective [that] is overly simplistic’ (indeed, it may well be that ‘crucial contributions to economic growth come primarily from a small number of elite research universities preparing a small elite of technical workers, rather than from the equitable extension of college for all to the mass of the population’).

21. **RESEARCH COSTS IN US HEIs** (p 51): C.A. **Goldman & Williams**, T. (2000, RAND), *Paying for University Research Facilities and Administration*, explore the US \$15b Federal spend on science research, of which c\$4b or some 25% (varying, as in the UK, among the government agencies involved) is paid to cover indirect/overhead costs of ‘F & A’ costs *but* leaving HEIs c\$1b underfunded since such costs are on average at least 30% of a project. In addition, HE spends around another \$4b generally subsidising research by not properly measuring/pricing academic time and via compliance costs associated with increasingly onerous regulations (eg hazardous waste disposal, lab health & safety, animal care, cost accounting standards). Of this \$15b, 60% goes to just 50 of the 4000+ US HEIs and 90% to 150. The overhead recovery calculation is based on OMB Circular A-21, ‘Cost Principles for Educational Institutions’ (1993), the exact ‘approved’ rates varying across HEIs but the 30% norm being lower than for Federal labs at 33% and commercial labs at 36% (probably because of the cross-subsidy referred to). The Circular allows for ‘interest on debt associated with buildings and equipment’, which encourages the supply of new infrastructure (this category increasing from c5.5% of overheads in 1988 to c9% in 1999). See Notes 11 & 24.
22. **ACCESS TO US PUBLIC HEIs** (p 65): **Heller** (2001, edited) stresses that the 1960’s issue of ‘access’/‘widening participation’ has now become an ‘affordability’ crisis for Middle America, while ‘accountability’ is another code-word meaning cost-control and quality-control (delicate areas given that ‘the economics of cost, price, and production in higher education is messy and poorly understood, even by those within the industry’, and also given that ‘the measurement or assessment of outcomes from higher education is rudimentary at best’: all compounded by ‘an atmosphere increasingly devoid of trust’ where such trust is vital as an alternative to inefficient regulation and where trust once lost is hard to recapture).
23. **THE LUMINA FOUNDATION FOR EDUCATION** (p 82): The **Lumina Foundation** (www.luminafoundation.org) is a US version of the Sutton Trust. Its September 2004 Report (‘Collision Course; R.C. Dickeson) on controlling HEI costs and hence improving accessibility/affordability (and indeed accountability) proposes that HEIs share facilities and purchasing, maximise income from entrepreneurial activities, avoid tuition discounting...

There are also concerns about the commodification and commercialisation of access and admissions to US top ‘name-brand’ HEIs – from the pressure on applicants and parents in ‘playing the game’ and ‘working the system’, via the risk of HEIs ‘managing’ their admissions data and process, to the general undermining of educational values as students become consumers and the social exclusion of such top HEIs (only 3% of students at the most selective 150 HEIs come from the bottom income quartile, and 74% from the top quartile). See L. Thacker, *College Unranked* (2004) and his website at www.educationconservacny.org.

24. **HEI COSTS** (p 30): This Note considers two major new US texts on the cost of HE (see also Note 18c above), the first by Geiger concentrates on the research university and the second by Vedder on the cost of tuition as the affordability/VfM issue... R.L. **Geiger**, 2004, ‘Knowledge and Money: Research Universities and the Paradox of the Marketplace’, examines 99 research universities (66 public and 33 private), commenting/concluding:

- Their annual spend is 1% of the US economy; they are each ‘a knowledge conglomerate’, a role ‘costly to sustain’ and now dependent on the marketplace, which thereby creates a major problem in managing the interplay of market forces (including student consumerism) and the intellectual/academic mission of the university.
- Their core teaching costs in 1999/2000 were \$25k at the private universities and \$15k at the public ones, of which, respectively, \$17.5k and \$5k is recovered as tuition fee income. The gap is filled by endowment income (at an average spend-rate of 4.5%) in the former, and by taxpayer subsidy in the latter (which also have up to one-third of their undergraduates as out-of-state/full-cost fee-payers).
- Such costs at the private HEIs have grown since 1980 at twice the rate of spend at the public universities, buoyed up by the increases in tuition fees at double the growth in personal disposable income and where these fees have been made affordable partly by ‘tuition discounting’ and partly by the offer of cheap loans as part of the student financial aid package (and as in a consumer credit boom generally and ‘a culture that encourages borrowing as a first resort’!). Thus, in the 1980s and 1990s there was virtually no consumer resistance to fee hikes, or at least not by way of a reduced demand for this increasingly costly product.
- Tuition fees are beginning to vary by subjects/majors *within* HEIs as ‘user fees’ are levied for, say, science laboratory consumables.
- And just where is all this money spent? Is more income needed because these HEIs are inefficient, or does the cash find its way to ‘quality enhancement’? It *seems* to be more the latter, via extra academic pay and glitzy new infrastructure (including ‘ever-grander structures for the creature comforts of young scholars’), but with the public HEIs struggling to keep pace with their private competitors in terms of recruiting talented undergraduates (on average barely 15% - Berkeley best at 35% - of the former’s students have a SAT score of 700+ , while the figure for the

private universities is 35% - with the top ones at 65-70%, as at Harvard, Stanford, Princeton, Yale and MIT).

- Re Lambert and IP exploitation/technology transfer at UK HEIs, see for a US perspective Geiger's Chapter 5 on 'Universities, Industry, and Economic Development'. (See also Note 29 below.)
- Geiger sums up 'the paradox of the marketplace' for these 99 US research universities as: (pp 265/266) '...the marketplace has, on balance, brought universities greater resources, better students, a far larger capacity for advancing knowledge, and a more productive role in the US economy. At the same time, it has diminished the sovereignty of universities over their own activities, weakened their mission of serving the public, and created through growing commercial entanglements at least the potential for undermining their privileged role as disinterested arbiters of knowledge... The gains have been for the most part material, quantified, and valuable; the losses intangible, unmeasured, and at some level invaluable. The consequences of the university's immersion in the marketplace are thus incommensurate. In the near term, no doubt, the tangible payoffs from these markets will prove greater than the intangible dangers. Nevertheless, increasing market coordination of universities should not be construed as a prescription for unceasing material gains... And what succeeded in one era, if left unchanged, has a strong likelihood of failing in the next... Adaptation demands constant attention to the signals of the marketplace...'

R. **Vedder** (2004, 'Going Broke by Degree') is rather less comforting reading for US HE than Geiger: he asserts that productivity and teaching quality are declining in inefficient public US HEIs which are poor vfm for the taxpayer, leading him to call for greater cost-control, increased teaching loads for faculty, less tenure, reduced administrative staffing, more outsourcing, and notably both 'voucherization' (preferably 'performance-based' as in effect scholarships) and 'privatization' of the public HEIs. There is a need for real market competition and discipline; extra public spending on HE does not improve economic growth; HE is more a screening device for employers recruiting useful employees, given that much of the graduates' human capital is not actually acquired in college; 'legacy admissions' and 'early admissions' are a scandal benefiting academically mediocre but financially privileged applicants; teaching is short-changed by the cross-subsidization from the undergraduate tuition fee income of both graduate education and academic research, and, even worse, of intercollegiate athletics (at a cost of \$500 of the student annual tuition fee at Ohio University where Vedder is a professor of economics); grade-inflation is rampant; public subsidy of HE has not led to widening participation; almost 30% of degrees are in business, IT and media, while a mere 5% are in biology and only 2.5% (sic!) are in physics and maths; and the expanding for-profits are to be welcomed as proper competition for the sluggish publics; student retention rates are a disgrace; and something needs to be done about 'the idleness and party atmosphere' prevailing on too many campuses...

Other US academic economists disgruntled with the supposed inefficient governance and management of US public HEIs as producer-oriented entities are **Amacher & Meiners** ('Faulty Towers: Tenure and the Structure of Higher Education', 2004). They trace the concepts of academic freedom and academic tenure to the end of the nineteenth century, noting an element of 'folklore' leading up to the AAUP 1915 Declaration (despite in effect the reality of 'presumptive permanence' prior to 1915). A better-known definition of tenure is from the AAUP's 1940 Statement (termination only for 'adequate cause', including 'financial exigencies'), while academic freedom in the same Statement covers research, publication, teaching and citizenship within the HEI and the wider academic community. But the authors assert, tenure and academic freedom do not (or rather should not) protect the incompetent, the slacker, the immoral, the negligent, and the insubordinate: the fact that such academics keep their jobs is not because of tenure *per se* but, they claim, because the structure of higher education governance and management makes for passive trustees and feeble leadership, and not least because academics 'instinctively resist change' especially by the third-rate amongst them packing campus committees to which too much power is given within a public sector where competition is constrained. Their answer, like Vedder's (and Adam Smith's – see Note 18m), is also the voucher and the market replacing central bureaucracy.

25. **COMPARATIVE PERSPECTIVES ON ACCESS** (pp 72/73): Tapper & Palfreyman (editors) in Understanding Mass Higher Education: Comparative perspectives on access (2005) compare access to/widening participation within HE in Australia, France, Germany, Italy, Holland, the Nordics, Poland, England, Scotland, and the USA. They ask: access by whom, to what, with what purposes and outcomes, and at whose expense? In the case of Australia Duke identifies 'the diminution of access' as HEIs become more stratified, there being 'no time for access' in the context of 'the entrepreneurial university' driven by economic liberation and marketisation. Deer on France notes that theoretical open access still means the relative exclusion from HE of those from poorer social backgrounds, especially in the case of the elite grandes écoles: 'the persistent and, at times, growing inequalities in selection and access at tertiary level'. For Germany Ostermann also notes an 'already unfavourable' percentage of working-class students in HE (12% in HE, compared to 40% in the general population; 47% from civil servants and professionals amounting to only 21% of the total population): 'Children from lower-income families in percentage terms are therefore very much under-represented in higher education... socio-economic background can be a determining factor in shaping an educational career'. Michelotti in considering Italy also identifies 'socially biased' access to HE, while in the case of Holland Kaiser & Vossensteyn develop their 'carrying capacity' model of access to HE and note that 'there is no clear evidence that links access policies to changes in participation'. In the Nordics Aamodt & Kyisk show that, despite their very high APRs, inequality by social origin 'still seems to persist': 'the overall conclusion is that the expanding access to higher education over the last decades has led to surprisingly small changes in the enrolment pattern by socio-economic background in the Nordic countries. The persisting inequality is a much more striking feature than the tendencies

towards equity' (and access to 'posh' HEIs/courses is even 'more socially biased'). Poland, according to McManus – Czubinska, is no different to most other countries: 'equality of access has very rarely been achieved'. Parry reports a more promising story for Scotland, especially in contrast to England where Tapper notes some optimism even if 'expansion has not benefited all social groups equally' and there remains the problem of 'low working-class participation in English higher education'. Finally, Douglass looks at equity and access in USA HE, noting that access rates tell only part of the tale and that retention/completion rates need also to be analysed in order to see what percentage of starters ultimately earn a first degree: 33% in the USA, France 25%, Germany 16% (sic) and the UK 37% (the highest of all!). In the concluding chapter the two editors note the universality of HE expansion, a slow trend towards higher tuition fees and marketisation as the cost of massification becomes too much for the taxpayer, the varying degrees of State bureaucratic intervention, the 'peculiar English discourse' by way of the fascination with the equity of access and widening participation ('The peculiarity of the English situation is probably best explained by the dominance of class in interpretations of its culture and its continuing, if declining, significance in shaping national political life' – cf the US pre-occupation with race). Moreover, only the UK has moved towards 'more intrusive State control of admissions'. There may be limits to the expansion of HE; expansion creates tension between system diversity and system coherence; and there are varying degrees of political intervention in material HE systems. See Usher & Cervenán in Note 4 concerning an international accessibility and affordability index.

26. **OxCHEPS/Ulanov Report** (p112): This Report has been published in Higher Education Review (2004) 37 (1) 3-31; see also the OxCHEPS web-site, Item 13 of the 'Papers' page.

27. **HEFCE, 'Young participation in higher education'** (pp 72/73):

- a. This is a hefty Report (HEFCE, January 2005/03; THES, Supplement, 21/1/05) on access to UK HE, 2000, which concludes that 'deep and persistent inequalities' remain between different social groups and regions (calculated by post-code): the better off were five times more likely to enter HE; 18/19 year olds in poorer areas of London twice as likely to enter HE than those in deprived areas elsewhere. But there was no evidence of either the replacement of student grants with loans or the introduction of tuition fees impeding access to HE. The top 4 constituencies for HE access are: Kensington & Chelsea (80% to HE), City of London/Westminster (65%), Sheffield Hallam (60%), Eastwood (50%); the bottom 4 are: Sheffield Brightside (6%), Nottingham North (8%), Bristol South (10%), Leeds Central (11%). (Interestingly, August born children are 20% less likely to enter HE than September children, and do less well in GCSEs.) Note that this HEFCE study concentrates on 18/19 olds (they amount to cover 80% of entrants to HE), not participation by those 'under 30': the latter gives a 30% YPR for England, the latter a higher HEIPR figure.

- b. The 30% YPR increased by only 2%, and the inequalities within it are generally unchanged, 1994/2000: meaning, as with earlier expansion of HE, ‘most of the new places in HE have gone to those from already advantaged areas’. Some 87% graduate within 6 years, and hence the effective young participation route in terms of entering HE and leaving with a degree is c25% (not 30%). Scotland’s figure is closer to 40%, mainly because of the high level of HE activity within FEIs. Women enter HE to an increasingly and a significantly greater extent than men: this sexual inequality is some 13% in England, and is not due to expanding nursing courses admitting more women than men. By UK region Scotland leads at 39%, then Greater London at 36%, the South East at 33%, down to the North East at 24%; but, of course, there are wide variations within regions (and indeed within cities within regions). The inequality ratio reaches an extreme of c6.5 between micro-areas within the parliamentary constituencies, between pockets of maximum advantage and disadvantage; and the sex inequality 13% average for England extends to 29% within disadvantaged, overall low participation areas.
- c. There is some speculation in the Report that HE participation has increased slightly for those from the most disadvantaged areas (perhaps a result of generally increasing national prosperity); and has decreased slightly for those from advantaged areas (perhaps because, if they could not get into ‘elite’ HEIs, they were not prepared to move ‘downmarket’ and either to delay entry or even seek an HE course overseas). The Report goes into great detail, analysing the characteristics of high and low participation areas in terms of entry to HE – the former have detached houses, are social class 1-111(n), are car-owners, have parents with degrees, have more foreign holidays, etc; the latter council houses, are lower social class, are car-less, have few graduates, have least foreign holidays, etc... Thus, the HE entrant from the high-participation area will be more likely to have the following personal characteristics: social class 1-111(n), liable for full tuition fee after means-testing, attended an independent/private school, higher A-level points (above 17), attending an HEI further from home, living away from home, studying at an ‘old’ university, to have had ‘a gap year’, less likely to be doing an HND or teacher-training or nursing...
- d. In essence, this HEFCE Report on widening participation in UK HE and on the deep and persistent inequalities in terms of access to HE confirms other material cited in Note 4 above, and reflects the wider picture painted for Europe in Notes 17 (the PURE Project) and 25 and for the USA in Note 13: and seemingly the non-impact of charging the flat-rate fee.

- e. It remains to be seen, when HEFCE repeats the methodology to update the data first to 2005 entrants and subsequently covering the years when the higher variable fees are charged from 2006, whether, over say 2006-2010, the charging of £3000 annual fees has any more of a negative impact on HE access than the £1000 from 1998 over 'free' HE in 1994/1997.
- f. As for SATs and social equity in access to US top HEIs (public & private) see William **Bowen** (The Thomas Jefferson Foundation Distinguished Lecture Series, University of Virginia, 7 April 2004) who stresses the social inequity: 'Less than a third of all students from families in the bottom income quartile even took the SAT, as compared with more than two-thirds of those from families in the top quartile. Second, test-takes from families with high income and high educational attainment do much better on the SATs than do students from other families. Among the test-takers, just over 7 percent of those from the bottom quartile scored over 1200, as compared with over 20 percent of those in the top income quartile...' (Lecture II, The Quest for Equity: 'Class' (Socio-economic Statutes) in American Higher Education). Given that high SAT scores are needed for entry to 'elite schools' (and to garner the merit aid to help pay their tuition fees), Bowen asks whether such HEIs are 'engines of opportunity' or 'bastions of privilege', while acknowledging that such highly selective HEIs have indeed in recent years markedly improved their 'outreach' in recruiting disadvantaged students. But the number of students who are both low income family and first-generation college-goers is still well under 5% of the student population at these HEIs (whether the top private at 3% or the top public ones at 4%). Thus, high selectivity based on high SAT scores that correlate strongly to socio-economic status means the elite HEIs recruit 'only a very small number of students from families of modest circumstances'. On the other hand, low(ish) SAT score racial minority, 'athletics' and 'legacy' (parent is an alumni donor to the HEI) do have a disproportionately high chance of getting in. 'The worst background is clearly to be poor white 'trailer trash'! Yet if such students do after all manage against the odds to gain access to the elite HEI, they do not underperform once there, unlike their counterparts admitted for being sporty or from a racial minority; but they are less likely than their wealthier classmates to graduate at the public elite HEIs (while graduating at the same rate at the private elites, where they probably get more care and attention in terms of teaching and 'the learning environment' at the better resourced private HEI). All in all, the elite HEIs will and do take low SEG/high SAT score applicants, but the chance of being high(ish) SAT score and low SEG is slim unless they are indeed fortunate in their being the beneficiary 'of the efforts of dedicated parents and teachers, as well as aggressive recruiting by the [elite] colleges and universities.' That said, the situation has improved slightly for such students from 9% of the intake in 1989 to 11% in 1995 (the top income quartile also increased its share; the middle income categories lost out to the group above and

the group below). So, is the glass half empty or half full in social equity terms? The elite HEIs are, on balance, ‘engines of opportunity’ in locating and recruiting high ability poor students; but they are also ‘bastions of privilege’ in US HE still being characterised by ‘the disproportionately large number of graduates of these [elite] schools who come from the top rungs of American society’. Overall, social equity is not being achieved and more than a needs-blind/need-based aid approach is needed: something in the way of ‘class-based affirmative action’ or ‘economic affirmative action’ (as already a similar mechanism clearly benefits athletic, racial minority and legacy applicants). If, calculates Bowen, these low-income applicants got the same special treatment as legacy applicants, their probability of gaining admission would increase from 32% to 47%, and their share of the recruited class increase from 11% to 17% (the losers being the number of students from wealthy families, down from 79% to 73%). Such a change would (‘giving a “legacy boost” to low-income applicants’ or ‘putting a “legacy thumb” on the admissions scale (maybe even a thumb-and-a-half)’), of course, cost HEIs more in providing financial aid to needy students (Bowen estimates it at an increase of some 12% in the SFA budget). And presumably the legacy applicants turned away might take their alumni parent donations with them! Bowen concludes by stressing that: ‘Allegiance to this country’s ideals requires American [elite] higher education do more than it is doing at present to support the aspirations of high-achieving young people from modest backgrounds who want to be welcomed within the walls of what are still seen by many as “bastions of privilege”...’. In short, the ‘engines of opportunity’ need retuning! This material is now readily accessible in **Bowen, Kurzweil & Tobin (2005) Equity and Excellence in American Higher Education**. The authors believe that ensuring equity in access to HE ‘remains the perennial challenge facing American society’, defining access as not simply getting into HE (‘enrolment’). They see two major threats – firstly, the block in improving the numbers amongst lower SEGs properly prepared by the under-resourced school system for entry to HE; and, secondly, the funding problems currently faced by US public HEIs. The issue is not merely the affordability of HE, but ‘those myriad inter-connected, deep-seated, and long-lasting effects of socio-economic status that make the educational opportunity gap so persistent – and so hard to close’. Thus, ‘the gates of opportunity’ need to be opened wider and there is ‘a strong case to be made for being broadly inclusive in “crafting a class”...’ (affirmative action by ‘putting a “thumb on the scale”...’) in order to ensure ‘an appropriate balance is being struck in pursuing the complementary goals of equity and excellence’ in the context of a high-tuition/high-aid approach (rather than a European low-or-no-tuition/low-no aid/poor quality approach to financing HE). Improving ‘college preparedness’ amongst lower SEGs means facing up to the fact that ‘the biggest challenge is to convince contemporary policy makers and the American public to take on the intractable, unglamorous infrastructure problems of early childhood, primary and secondary education – especially in poor communities’. The goal is

‘excellence with equity’ – not ‘equal access to mediocrity’, nor excellence for ‘a favoured few’ – if US HE is to continue ‘as a driver of the nation’s economy, as an engine of social mobility, and as a key contributor to this nation’s commitment to democratic values’.

28. **OXFORD’S 2005 GREEN PAPER** (pp 80/81):

- a. The University of Oxford has issued ‘A Green Paper’ as a consultation document on ‘Oxford’s Academic Strategy’ (Gazette, 135, February 2005). The document is admirably concise, comprehensive and cogent. Drawing on the OxCHEPS ‘Costing Oxford’ report, the annual deficit is calculated at £28m on teaching and £68m on research – almost £100m pa. It is recognised: that academic staff are not paid well compared with colleagues at its international rivals; that teaching loads are heavier for them than at such other universities; that it has performed remarkably well despite ‘a deeply problematic funding environment’, where educating the average undergraduate costs some £18600 pa against a total income of only some £9500; that ‘much of the research that is done does not cover its full economic cost’; that the new variable UK/EU undergraduate tuition fees from 2006 ‘will make only a small dent in the loss per student’; that the annual net cash deficit of c£20m is covered from the OUP trading surplus but that there is ‘no free cash flow for investment, depreciation or increased debt servicing’; that the demand for capital investment is high and is increasingly difficult to meet; that ‘what Oxford needs is not to forego income from public sources but to increase its private income substantially; that the University needs to slow its rate of growth and gradually decrease overall undergraduate numbers, while also increasing overseas fees to generate more income; that externally-funded research has to be at full economic cost ‘(or more)’; that ‘Oxford has already undergone a transformation in its governance and is no longer the lumbering giant that its critics suppose it to be’; that ‘the challenges are formidable’; and that, ‘if radical measures are not taken, Oxford’s standing will decline’...
- b. The Oxford document received extensive media coverage, not least because of the threatened reduction in UK undergraduate places in order to expand profitable overseas undergraduate fee payers. Similarly, Cambridge has declared itself to be running at an unsustainable £15m-plus annual deficit, and that the proposed £3K fee from 2006 will do little to improve matters: like Oxford, Cambridge is talking of expanding overseas undergraduate numbers (see Times, 31/1/05, p. 4). A Times Leader (31/1/05, p. 19) noted that the fees issue may need to be re-addressed before 2010: ‘the most prestigious institutions of

higher education in England cannot afford to wait so long for additional autonomy and resources’.

- c. The second Green Paper on Governance seems to have so far been rather less well-received within Oxford ‘dondom’, many being sceptical that ‘the problem’ is really the academic self-governance of the University as opposed to its lack of money (80% of the problem?) and perhaps poor management (15% of the problem?): it remains to be seen whether academic demos will transfer great chunks of power to the proposed lay trustees...

29. **ECONOMIC GROWTH** (pp 14-17): In the helpfully user-friendly and concise explanation of ‘The Mystery of Economic Growth’ (E. Helpman, 2004, Harvard University Press) we learn:

- *real income per capita* is used to measure how well off people are (real GNP per capita, 1996: US at \$28K, Switzerland at \$26K, UK at \$20K, Sweden at \$18.5K...); while economic growth is measured by the rate of change in real income per capita (most countries manage around 1-3%; ‘the Golden Age of economic growth’ having been 1950-1973).
- *economic growth* equals the accumulation of physical and human capital (education and training within the labour force) as the Solow ‘neoclassical growth model’ PLUS total factor productivity (TFP).
- and, roughly, *TFP* accounts for around two-thirds of economic growth; it is the dominant element, and far ahead of human capital as a factor.
- next, within *TFP* as the dominant force behind economic growth, *technological change* is perhaps the most important determinant – R & D investment, innovation, patents, IP exploitation, etc – within ‘the “new” growth theory’; and there are sizeable spillovers of ‘knowledge flows’ amongst the half dozen (US, UK, Germany, Japan, France, Canada – in that order) economies carrying out 95% (*sic*) of global R & D.
- on the other hand, within TFP it may well be that the dominant factor is the existence of key *institutions*: ‘institutions that promote the rule of law, enforce contracts, and limit the powers of rules (within which a common law system is supposedly more helpful than a civil law system – a factor within ‘the Anglo-sphere’ – and where geography (temperature and precipitation) matters little).
- *human capital theory* is over-played as an explanation of economic growth (‘Models of human capital accumulation require careful interpretation... It is clear that alternative treatments of human capital have dramatically different implications... There is a controversy

concerning how to best measure the contribution of human capital to the growth of income’), even if ‘Education is an important mechanism for human capital formation... [and] education plays a major role in economic growth’.

Thus, the economic growth justification for expanding HE may be rather less to do with simply producing more graduates (of whatever kind) to work within the labour force as a means of enhancing human capital, and much more linked to the contribution of HE to R & D as a key factor in TFP – in which case the recent ‘massification’ of UK HE is not necessarily justified in economic terms (whatever may be the justification in human contentment and cultural terms) if, in practice, the expansion is overwhelmingly in non-science/technology subject areas and indeed seemingly involves the closure of ‘hard’ science departments!

See also: **Griliches**, S., 2002, *R & D, Education, and Productivity* and H. **Etzkowitz** et al, 1998, *Capitalising Knowledge: New Intersections of Industry and Academe* (SUNY Press). **Zhang & Thomas** discuss human capital in chapter 5 of J.C. Smart, *Higher Education: Handbook of Theory and Research* (Vol. XX, 241-306, Springer): they note that ‘college quality’ is a significant factor in determining the personal rate of return, even after allowing for the high cost of the tuition fees at such US elite/prestigious private HEIs. Zhang & Thomas thoroughly review the literature, theories and concepts (including human capital theory), methodologies, etc: they especially note the idea of social reproduction theory, of high socio-economic status being a predictor of success in applying to top HEIs, of ‘substantial stratification’; and with parental education as ‘a primary driver of intergenerational socio-economic mobility’. The big prize is for a low socio-economic student who, against all the odds, manages to reach an elite HEI. And US elite HEIs serve two purposes – they provide important routes for social and economic mobility, and also preserve and perpetuate socio-economic stratification within US society; with in practice the former being minor compared to the latter, and thus ‘the rich get richer and (most of) the poor stay poor’ as these HEIs ‘offer mobility while preserving the status quo’ and ‘promote (some) equality while perpetuating inequality’. There is also the work of the US **Institute for Higher Education Policy (IHEP)** at www.ihep.org. Its 2005 ‘The Investment Payoff: A 50-State Analysis of the Public and Private Benefits of Higher Education’ asks ‘Does College Matter?’ and assesses: private economic benefits (higher personal income and lower unemployment), public economic benefits (decreased reliance on public assistance), private social benefits (better health), public social benefits (increased volunteerism and voting participation). The ‘best educated’ US States are Colorado, New Jersey and Vermont; the least West, Virginia and Kentucky. The message to State legislatures is that HE provides ‘a broad array of benefits’ and there are ‘payoffs’ by way of ‘state economic development, social stability, and individual prosperity’.

30. **QUALITY IN HE** (p 73): **Finnie & Usher** in ‘Measuring the Quality of Post-secondary Education: Concepts, Current Practices and a Strategic Plan’ (Research Report W/28, April 2005, Canadian Policy Research Networks (CPRN), at www.cprn.org) review current quality measuring/assessing methodologies within OECD countries (minimum standards approach – rankings/indicators approach – learning impacts approach – continual improvement approach using ISO 9000; and using beginning characteristics – learning inputs – learning outputs – final outcomes). See at the CPRN site its Report on ‘The Affordability of University Education’ (USA and Canada compared), and also **Bruneau & Savage** (2002), Counting Out The Scholars: The Case Against Performance Indicators in Higher Education (Toronto: Lorimer).

APPENDIX I: HIGHER EDUCATION 2020 – the drivers of inevitable and global change

- Almost everywhere HE is losing out against schooling, healthcare, policing and defence in the prioritising of public expenditure, and this is still a decade or more before the aging EU countries have to come to terms with their impending pensions crisis and the cost of caring for the elderly.
- Yet, as OECD governments find it increasingly difficult to sustain the finances of their HE provision at recent levels, there is growing demand for HE as social expectations evolve to include it for an ever-wider section of society (as well as, in some countries (notably the UK), there still being political pressure to widen social participation in HE). (See generally the **OCED** ‘University Futures’ Project at www.oecd.org/edu/universityfutures.)
- The combination of the above two factors will not only mean existing HEIs needing properly to grapple with cost containment and to develop further other sources of income (tuition fees, alumni giving, profits on entrepreneurial activities, and the use of corporate bond low-cost capital financing), but will also mean HE finding new ways of providing additional *and* cheaper provision (for example, expanding the Community College-Associate Degree system in the US, creating the equivalent Further/Higher Education College-Foundation Degree route in the UK, reducing the length of degree courses in many EU countries).

- There will be steady shift towards private, ‘for-profit’ HEIs providing ‘lean and mean’, ‘cheap and cheerful’ vocational HE, via highly focussed teaching and without the expense of campus social/sport (and even library) provision, of academic tenure, of providing staff time for academic research, and of the (seeming) amateurishness of collegial governance. Such commercial HEIs may cherry-pick profitable vocational courses from traditional HEIs, damaging the latter’s ability to cross-subsidise uneconomic academic activities (eg research, tenure, lab-based courses). In that event, there will, of course, be pressure from public/‘not-for-profit’ HE to constrain the threat of commercial HE by a process of ‘regulatory capture’ (eg the EU policy on private HEIs already requires them to provide expensive libraries, academic tenure and collegial governance/management as an entry-hurdle to the HE industry). Another tactic will be to lobby that such students at ‘for-profit’/commercial HEIs shall not access State financial aid, for fear that taxpayer subsidy will leak to shareholder profits. And yet, incidentally, at what point exactly does a traditional public-funded HEI pursuing an entrepreneurial path in effect mimic a ‘for-profit’ commercial business?
- Public HE will generally shift from a low-tuition policy to a high-tuition fees/high-student financial aid model, from a wasteful generalised expensive taxpayer subsidy of wealthy family and middle-class students towards a policy of targeted financial support to students from poorer backgrounds: in effect, a process of ‘cost-sharing’ and even semi-privatisation.
- In some OECD countries (certainly the USA; probably the UK, Australia, Canada) the politics of HE will, however, focus on using taxpayer subsidy to finance affordability for middle-class students at the expense of accessibility for disadvantaged socio-economic groups. How much middle-income groups are prepared to pay for HE for their student-children (and/or allow them to take on long-term debt) will depend on the value put upon HE compared to, say, paying higher houses prices, replacing cars, funding exotic holidays, boosting retirement savings, paying for granny’s nursing home care... There *is* a real risk that existing HEIs could over-price themselves as far as middle-income groups are concerned (assuming that high-income groups can afford high fees in any event, and that low-income groups will get financial aid): hence the potential market opportunity for lower-cost (or at least carefully priced) commercial HEIs such as Phoenix University.
- Globalisation within HE (reinforced by WTO/GATS proposals to free up trade in services, including HE), together with a wealthier world economy, will benefit HEIs that teach in English, both in terms of students from other countries flocking to them and paying high(er) tuition fees and also in terms of such HEIs establishing profitable franchising/collaborative arrangements and actual campuses in other countries. That said, such income streams will be very vulnerable to geo-political disruption (as in the USA at present, where stringent visa controls impact on foreign student recruitment). Similarly, Japanese HEIs face a threat to their recruitment of o/s, and especially Chinese, students arising from a crackdown by the Japanese Government on students allegedly overstaying their visa periods. (See also the **OECD**

‘Internationalisation and Trade in Higher Education’ Project at www.oecd.org/edu/internationalisation: the major growth countries for ‘exporting’ HE 1980-2000 (1990=100) are Spain (1980 105, 2000 385), Australia (30, 380), UK (75, 280) – cf USA (75, 120) – with 475K foreign students in the US, 225K in the UK, 200K in Germany, 150K in France, and 110K in Australia; such students are ‘imported’ mainly from China (125K), Korea (70K), India (60K), Greece/Japan/Germany (each at 55K) – cf US (30K), UK (25K); the OECD analysis suggests four rationales for ‘trade’ in students – fostering of mutual understanding, encouraging skilled migration to benefit the receiving country, finance-driven revenue-generating for the receiving system, and capacity-building of the HE provision in the sending country; the issues in such ‘trade’ are quality and recognition, access and equity, financing and cost.)

- HE infrastructure in many countries is 1960s/1970s weighted; such buildings will need replacement (or at least extensive refurbishment) over the coming decades and the accounts of most HEIs would be thrown into (greater) deficit if capital costs were more accurately and comprehensively factored in. Finding the money to replace libraries, labs, offices and residences will need the unlocking of corporate bond financing (as already well-developed in the USA) and the use of public-private partnerships (as already in the UK for student residences), given that public-funding is likely to be increasingly stretched. Often the new tuition fee income noted above will be spent largely on such infrastructure (including increasingly lavish student recreational facilities).
- At the same time, the academic staff/faculty human resource infrastructure is also aging, with a bulge of retirements due by 2010/2015. To an extent this will push HEIs into ever-more desperate experiments with computer-assisted learning and with student DIY-‘experiential’ learning, into greater casualisation of academic posts (including keeping aged academics on part-time past retirement age), and into an expensive inter-country transfer market for ‘trophy professors’. SSRs of 1:15/1:20 will become a distant memory of Halcyon Days!
- The pricing of HE will become ever-more complicated, with discounting (overt and covert) from ‘the sticker price’ for middle-income families and student financial aid packages for low-income families, and competition by way of ‘merit-aid’ for clever students able to add to ‘peer effect’ informal learning. Some HEIs, or even courses within them, will get their pricing wrong, and suffer the financial consequences. Higher prices will put a premium on ‘customer care’, although that may involve making students happy via increasingly lavish campus social/sporting infrastructure as much as (even more than?) via enhanced teaching resources: in short, chunky tuition fee income will not necessarily translate into better SSRs nor into academic pay increases and improved staff/student ratios. Research having been concentrated into barely 10% of a nation’s range of HEIs, the rest, as teaching-only, will need to become truly serious (at last!) about achieving and delivering quality within the mysterious Black Box that is HE teaching and learning, or face the legal consequences from the increasingly empowered student consumer (and indeed his/her parents – ‘Mum Power’!).

- There is, of course, a risk that some governments will not free up (deregulate, marketise, privatise, denationalise) HE to allow the charging of higher tuition fees; they will seek to protect affordability for middle-income groups/voters. The result will be declining quality in their HE systems, with the better-off families either using the developing private HEIs within their countries or travelling to other countries (notably the USA) where a diversity of HE and a free market in HE exists.
- Represented diagrammatically, global HE 2020 may look something like this, and either be floundering financially and organisationally in the Bermuda Triangle or basking in the financially benign high-demand expansive climate of the Azores...

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