

Markets, models and metrics in higher education

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I have previously considered the many (sometimes conflicting) purposes of the modern university (Palfreyman 2006): teaching, vocational training, liberal education, consultancy, scholarship, research (pure and applied), IP exploitation and technology transfer; preserving Civilisation, being the Conscience of Society, 'Speaking Truth to Power'; keeping the young occupied and off the unemployment register (thereby replacing Conscriptio and National Service); contributing to regional economic development, supplying leisure and pleasure courses for the aging population, providing a rite of passage to privileged youth, offering employment for the otherwise unemployable, building an art gallery and theatre for the local culture vultures, opening the campus sports centre to the 'chavs', renting out an inexpensive conference venue; receiving donations from the guilty rich... whatever.

Here I want to ask: How much does all this cost? Is it value-for-money? Who should pay for it? Or who should contribute how much towards which bits, and which profitable bits should subsidise the loss-leader or hopelessly uneconomic bits? Can HE as an industry and HEIs as service-providers control costs in the absence of a free and genuinely/ruthlessly competitive market? Should HE be a free public good paid for solely/largely from taxes, or a regulated quasi-public good with controlled/capped prices, or a liberalised privately traded commodity unhindered by State control but also no longer directly state funded? In short, just what are the features of the HE industry (nationally and globally) in terms of an industrial economic analysis? (In exploring all this I draw heavily on the economic analysis of the university contained in half-a-dozen or so US texts listed under 'Funding/Finance' or 'USA' at the Bibliography Page of the OxCHEPS website (<http://www.oxcheps.new.ox.ac.uk>), as broadly summarised in my earlier book on 'The Economics of Higher Education' (Palfreyman 2004), available in print or online at the Papers Page of the OxCHEPS website as Item 10, where it is also updated by Supplementary Notes.)

For Adam Smith it was all fairly simple: as for teaching, academics would speedily lapse into a producer-orientated conspiracy against the laity (students) unless forced to be consumer-responsive by being paid personally and directly by the student; while, insofar as universities had anything to contribute to economic progress via what we would today call research and technology transfer, that could be funded by the wealthy patrons financing the endowment of professors (and of handsome new buildings or of financial aid for poor but deserving students). Now, of course, we put the academics on the payroll, need astronomic sums to finance science research, and expect HEIs to perform a myriad of other functions – while, as it happens, moving steadily back to the idea of tuition fees, to more alumni-giving, to institutional bursaries for the financially needy (and, before long, also grants/scholarships, as merit-aid, for the academically gifted whose extra A-level points will helpfully up the average metrics for entry in those all-important league tables, impressing potential applicants and their parents, and also flattering alumni whose degree by implication then increases in value).

The challenge for HEI management is to work out which of the many aspects of the kudos game they can most cost-effectively afford to play in terms of leveraging prestige and/or reputation, of enhancing market-share and brand; for surely no HEI can afford (nor needs to) simultaneously perform adequately, and certainly not well, across all fronts: teaching (undergraduate, home and overseas; taught master's), pure research, applied research, consultancy, regional economic development, third-leg/community involvement... For example, one of the starkest dichotomies is that performing well on the widening-participation agenda is probably almost entirely incompatible with remaining an elite HEI: in terms of research intensity, social class and A-level scores selection of students, and current alumni-giving HE generally in virtually every OECD country is class-based as the private welfare state of the middle class and especially so in the case

of the elite HEIs, but (counter-intuitively) with the greatest (albeit far from perfect) social equity and accessibility being in the high-fees/high-aid USA and in highish-fees/highish-aid Australia/UK than in the open-entry and low or no-fees German/French/Italian (and even the Swedish) free public good systems (see Usher and Cervenak 2005; on the Widening Participation (WP) agenda and the need for better models to help us understand the access issue, see Appendix 1).

A depressing analysis of the economics of US private higher education is that a lack of true competition means there is no pressure for cost-control in the context of endless mission creep and ever-expanding bureaucracy. US HE is, the critics assert, in short inefficient and self-serving: we are still a long way from Adam Smith's ideal of student-consumer sovereignty; an ideal, admittedly that Mill saw as somewhat naïve in that the simplistic application of market principles neglects the reality that the student is in a weak position to make informed and entirely rational decisions about HE, and a theme picked up in Veblen's (1918) wider critique of the university run by crude businessmen as a mere business using inappropriate business concepts, aided and abetted by vainglorious HEI CEOs and SMTs as a junta. Moreover, there is a principal-agent problem: none of the three key components of the HEI (the lay governors/trustees, the Chief Executive Officer/Senior Management Team (CEO/SMT), the academics/faculty) is sufficiently concerned about cost-control and all are poor substitutes for the profit-maximisation motive in a commercial enterprise, especially in that the CEO/SMT and the academics/faculty also want always to pay themselves more ('rent-seeking' behaviour, in economic terms).

In effect, HEIs are full of cookie-monsters gobbling up all available resources! See Appendix 2 for a discussion of 'The Spellings Report' (Federal Commission on the Future of Higher Education 2006 and its range of discussion documents; all online at <http://www.ed.gov>) on US HE: the backup documents and the Report broadly confirm the economic analysis of HE set out in this paper in terms of identifying problems of HE economy, efficiency and effectiveness; they may together signal the beginning of the end of the three decades during which US HE has been almost fully protected from the cost-cutting that has characterised UK HE and HE in most other OECD countries given its ability to shift costs to the student/family by way of increasing tuition fees and, seemingly, with hardly any consumer resistance. . .

What is called for if HE costs are to be contained, argues this markets analysis, is the injection of aggressive competition in the form of both the globalisation of HE and also the growth of for-profit commercial HEIs that are financially disciplined by the equity markets. All of which are ironic aspects of the introspection of HE governance and management in that HEIs apply in the name of applied research and consultancy the analytical models developed by, and the critical skills of, their academics to almost every other entity in society and the economy, but rarely does academe inspect the embarrassing fluff in its own institutional navel. Broadly, this model of economic behaviour in terms of cost-control and pricing also applies to UK independent schools over the past thirty years or so, and to the delivery of health care in the USA.

In UK HE over this period there has, of course, been enforced crude cost-control in that our major source of income was Government funding and since the early 1980s that had been steadily reduced (effectively a halving of 'the unit of resource'). Now we are at the beginning of a decade-long process of change that will take us much closer to the US mixed-economy, public-private model for the delivery of HE: a process that begins in 2006-07 as home undergraduate annual tuition fees reach £3,000 and will end in 2015 or so, by when, subject to the 2009-10 parliamentary review of the cap on tuition fees, we should have fully phased in a true free market in at least English HE – or one perhaps still semi-regulated with a cap of, say, four-times the current figure. (Scotland and Wales will probably be slow-moving, along with 'Old Europe', in facing up to the inevitable globalisation of HE in terms of cost-sharing by way of increasing tuition fees as the taxpayer retreats and particularly as HE is no longer viewed as an essential free public good like schools, policing, healthcare, the State pension – all of which will be stretching the public purse to breaking point, especially for nations with aging demographics.)

By then HE as a free public service will be as quaint as the memory of waiting eight weeks in the 1970s for the installation of a new telephone line when telecoms was a State monopoly: HE, at

present the last of the pre-Thatcher nationalised industries, will have been finally deregulated and liberalised, or rather its UK/EU undergraduate sector will have been adjusted to match the current position with respect to overseas undergraduate tuition fees and tuition fees for postgraduate self-financing taught master's courses such as MBAs, where we already and happily operate a market economy to earn hard currency as the only thing that keeps some HEIs solvent. The challenge for us as managers over the next decade as the HE economic model changes will be to avoid the economic inefficiencies of the US HE private sector and also to improve on the quality problems of both the US public sector and of the HE systems of 'Old Europe'.

To do all this, UK HE managers will need to become as financially literate and 'bottom-line' conscious as their counterparts in the commercial world; they too will require the use of robust and dynamic economic and financial models based on reliable metrics that will inevitably be pretty complex and sophisticated to reflect the multi-various outputs of the average HEI. Such models will need to build upon and refine the work of Adam Smith, John Stuart Mill, Thorstein Veblen, David Riesman, and more recent attempts (by mainly US economists of HE: Vedder, Brewer, Geiger, Ehrenberg, Massy, Dill, Heller, Breneman, Hoxby; but with some contribution from elsewhere, Johns and Greenaway in the UK, and Jongbloed at CHEPS along with Marginson at Monash).

In essence, we need an exciting new series of visions of the political economy of the HEI that do more than simply hark back to the medieval Master paid for each lecture by his students (Adam Smith 1776); that carefully question the practicality of such naked consumerism (Mill 1836 revised 1859, and 1848); that rightly fear the dominance of the Philistine businessmen and the arrogant CEO/SMT in HEI governance (Veblen 1918); that appropriately welcome the alternative of faculty hegemony, albeit duly recognising it is one that also can lead to an excessive emphasis on the professional kudos of research at the expense of short-changing teaching (Jencks and Riesman 1968); and that sensibly regret its giving way to the empowered but unavoidably ignorant student consumer (Riesman 1980) – while, naturally, also positively lamenting the rise of the politically over-powerful student body that briefly challenged the faculty control of the groves of academe (Buchanan and Devletoglou 1970)!

Buchanan and Devletoglou were wide-ranging in their criticism of why the 1970s HEI failed the test of being a rational economic entity: it is theoretically run by lay governing boards who in practice concede authority to administrators/academics and so do not govern and hence do not properly represent the taxpayer; it is full of students as consumers who do not pay for and therefore do not sufficiently value HE or care about it; and it is controlled by faculty who do not need to sell the product and hence can concentrate on their selfish rent-seeking behaviour (back to Smith and to the cost-control problem referred to earlier). Some might see that 1970s analysis as still broadly holding good for the 2000s.

More recently we have had the entrepreneurial economic model (Slaughter and Leslie 1997, Etzkowitz et al 1998) – and, of course, critiques of it (Marginson and Considine 2000, Bok 2003, Washburn 2005), not least as a late-twentieth century version of everything that Veblen railed against back in 1918! Smith, however, might approve of the entrepreneurial university, and indeed welcome also the for-profit commercial HEIs, the increasingly vocational nature of undergraduate courses (chemistry and biology are repackaged as forensics), and the casualisation of undergraduate teaching by the growing use of part-time/short-term contract staff rather than full-time/permanent academics.

The reader will spot that each era in the history of HE gets the economic analysis it deserves: Smith calls for the (re-)empowerment of the student as consumer in reaction to his experience of lazy, feather-bedded eighteenth-century Oxford Dons; Mill pursues the mid-nineteenth century belief in the Holy Grail of State efficiency; Veblen resists the entry of Carnegie and Rockefeller aggressive 1890s/1900s American capitalism into academe; Buchan & Devletoglou react to 1960s revolting students; Riesman explores the psyche of the Thatcherite/Reganist 1980s student; Slaughter & Leslie consider the HEI's search for replacement money as by the 1990s the Queen's Shilling becomes only Sixpence; Bok et al regret such commodification going too far by the 2000s ... So, where is the economic model of the university that really and usefully fits our times

and era? An era of continued (accelerated?) declining taxpayer largesse, of (rapidly?) rising student tuition fees, of a growing (intrusive?) businessmen presence in HEI governance (and even management as CEOs/SMTs delude themselves that they are macho-businessmen who can walk-the-talk!), of globalised competitiveness, of challenge from for-profit commercial HEIs, of an increasingly devalued and casualised academic 'profession', of...

It seems we need a meta-model incorporating all the strands of the earlier models, no one of which caters for the complexity of the twenty-first century HEI and the threats, and opportunities, that it faces: a model that also recognises the multiple income (trading?) streams of the modern HEI marketing its extensive wares, the funding council teaching grant and research grant, research council grants, commercial research and consultancy, undergraduate and postgraduate tuition fees (UK/EU and O/S), 'third-leg' activities, IP exploitation and technology transfer, alumni-giving, corporate bond financing of capital projects, franchising/collaboration deals, the X-border provision of HE, and so on... And while we are building the new conceptual economic model, and refining the metrics that fuel it along with the costing and pricing analytical tools to complement it, we could aim also for a somewhat clearer understanding of the vision(s) and mission(s) of the modern university (and hence back to the first paragraph of this article): and also decide whether there really still is a public good/public service element to HE.

In terms of a public-private balance perhaps few HEIs would have the nerve to do as Mumbai University is thinking of doing (Financial Times, 17/4/07): this 150 year old public university is looking at a stock market listing! Now, let me just check my FT to see what the share value for 'New College PLC' is today (we've recently overtaken Christ Church, despite its *Harry Potter* earnings). As its 'Chief Operating Officer' I have valuable 'share options' and also, if the shares are up, my annual bonus gets bigger. Best of all, there might be 'a take-over bid' that will drive up shares from 'Trinity, Cambridge PLC' which, under aggressive 'new management', is rumoured to be looking to expand into Oxford. We may need an emergency Board Meeting so I'd better contact the 'non-execs', appoint City advisors, summon the due diligence lawyers and PR team, check the wording of the 'golden parachute' clause in my director's contract. Perhaps we should consider a New College bid for Trinity, with NC backed by private equity/venture capital from Permira or KKR, given that NC is valued at c£400m and Trinity at three times that? On the other hand, Disney Inc is said to be looking at the idea of an 'Oxbridge Theme Park'...

So far, perhaps the most challenging analysis of the modern HE system, and of the modern HEI within it, is by West (1995), building on Milton Friedman – and it is devastating; arguing that State intervention in HE is inefficient and wasteful of public money, demolishing the HE-as-a-free/subsidised-public-good argument from the perspectives of welfare economics, cost-benefit analysis, private and social rates of return, job-market signalling, market failure and externalities... and calling for Adam Smith's healthy discipline of consumer sovereignty rather than the main beneficiaries of taxpayer subsidies being a motley collection of politicians, bureaucrats, teachers, and middle-class students/families. West notes the lone example of the University of Buckingham struggling on as a truly private HEI within UK HE, and, as he sees it, being the only one to engage in pedagogic innovation in order to be market-responsive (two-year degrees, four ten-week terms a year), while the producer-oriented rest draw their public subsidy and operate in the pattern of the medieval academic year (just what do non-research active academics do between end-June and mid-September? – at least in the US they are on nine-month contracts!).

Thus, he declares: 'The debilitation of typical universities in today's environment stems from years of over-supply of public funds... Administrators' and professionals' sovereignty should go. The consumers should be re-enthroned.' Public money would still reach HE, but by way of vouchers (clutched by the empowered student consumer), and the taxpayer would save a fortune by killing off the parasitic quangoes surrounding HE - Higher Education Funding Council for England (HEFCE), Scottish Higher Education Funding Council (SHEFC), Quality Assurance Agency (QAA), Office for Fair Access (OFFA), etc - that are needed to channel public money better put directly into the hands of the student-consumer. Additional West material is available at <http://www.nd.ac.uk/egwest>, including his Report for the World Bank (1996) – note 'IV, Vouchers as Competition in Higher Education' where price control, via the Government capping

tuition fees, is asserted as bringing about 'the worst of all worlds' in making HE a cartel and building in myriad inefficiencies. Vouchers for HE are being experimented with in the State of Colorado; in the UK, the Conservative Party briefly contemplated vouchers in the 1980s, and, interestingly, the Liberal Democrats recently discussed them in the 'fringe' of the party conference...

And it could indeed be fun (for administrators at least) to return to the ultimate model of student-consumer sovereignty, the medieval University of Bologna, as described by Cobban (1971): 'Student controls over the lecturing system were formidable. The lecturer's life proceeded in an anxious atmosphere of impending fines. A lecturer was fined if he started his lectures a minute late or if he continued after the prescribed time: indeed, if the latter occurred, the students had a statutory obligation to leave the lecture room without delay... It would be no exaggeration to say that lecturing performance was continuously assessed by the students on both a qualitative and quantitative basis... This whole parade of student controls was underpinned by a system of secret denunciations. That is to say, four students were secretly elected to act as spies on the doctors and were bound to report to the rectors finable irregularities arising from such matters as bad lecturing techniques... From the statutory evidence the early Bolognese system would seem to be one based on mutual mistrust and antagonisms between staff and students.' (For more on 'The Student as Consumer?' see Farrington and Palfreyman 2006: ch 14.)

This extreme example of medieval HE consumerism takes us to the concept of the HE market or markets within higher education (see Teixeira et al 2004), raising the issue of the effectiveness of market mechanisms in HE in terms of producing optimal outcomes or suffering from some degree of market failure, and the question of whether such market semi-failure is still better than inefficient and wasteful government intervention (even when taking the currently fashionable form of creating quasi-markets in public services: for a parallel internationally comparative discussion of markets in health care, see Callahan and Wasunna 2006). We *do* need to be conscious of the risk of market failure and hence the need for consumer protection for the student, as exposed in the fiasco of UK HEIs' provision of HE in Israel and discussed by Lieven and Martin (2006): governments, they argue, need to regulate HE provision as a matter of consumer protection and the market-place is not to be relied upon (this is essentially because of 'the asymmetry of information' problem: the student punter does not really know what he/she is buying by way of HE!). The authors conclude: 'the British-Israeli experience suggests that consumers cannot safely be left to the mercy of sometimes rhetorical professions of academic and moral commitment, in the burgeoning HE market'. Few would now argue for the command-and-control government direction of HE; but few are yet totally comfortable with an entirely free and unregulated market in HE.

An interesting article by Marginson (2006) analyses HE global competition in terms of HE as a positional good and the vertical segmentation by prestige within national HE systems ('steeper in some nations than others, and more powerfully felt in some places than others, but always exists'). He argues that there is 'a world-wide positional market in elite degrees, concentrated in elite US and UK universities; and a mass education tier driven by revenues and profits', and that 'elite universities are caught in a wasteful 'positional arms race' in which their costs are escalated by bargains with elite faculty and spending on visible signs of prestige (marble pathways, 21st century sandstone)'. Non-elite HEIs are ones where 'teaching is unequivocally their core business' and hence 'the laws of competition are different', being based on 'reputation' (albeit that 'these institutions never receive full recognition for the quality of their work'). It is impossible to move up to being a 'prestige' from being a 'reputation' HEI, and there is 'the tense middle zone between the two primary segments' where HEIs can all too easily slide down but where 'the movement of wannabees into the top segment' is very difficult. Marginson's description of recent and intense marketisation in the Australian system is fascinating (including, crucially, private HEIs now being able to access public financial support for their students): 'The new system has created potential for both a small number of elite comprehensive private universities and a large number of more specialist vocational private institutions'. For more on the prestige-reputation model, see Brewer et al (2002).

Rhoades and Torres (2006) consider 'the political economy' of HE in this globally competitive environment, with Schugurensky's 'The 10 C's of the Heteronomous University' being cited (at p 307) as a model for thinking about the public-private split in HE provision that is increasingly significant in ever more countries: the 'Controlled University' is characterised by Cutbacks, Conditional funding, Co-ordination (collaboration and competition); and the 'Commercial University' by Cultivation of private and foreign HEIs, Customer fees, Client-oriented programmes, Co-operation with business, Corporate rationality, Casualisation of labour, Contracting out (all of which is not only somewhat erosive of academic collegiality but also hardly conducive to the public service/social responsibility of the university, and yet perhaps does not matter in a teaching-only, vocation-oriented HEI?).

What then is the optimum point along the spectrum (or on each of many spectrums/spectra)? Indeed, HE is not one market, but a multiplicity of markets: some fairly free (the selling of MBAs) and others still heavily regulated (tuition fees for home undergraduates); a few are very competitive (the academic labour market for trophy profs, or the intense competition for student entry to elite HEIs) and some rather fickle (the recruitment of overseas fee-payers); some have low entry hurdles (the provision of vocational courses in management and marketing) and others have high hurdles to entry (creating a medical school or pursuing particle physics research). And some internal markets within HE are in direct competition with each other for HEI resources: notably the diversion of academic staff time towards teaching or research in the research-intensive twenty to twenty-five universities competing to be the ten or so sharing the vast bulk of funding council/research council spoils post-Research Assessment Exercise (RAE) 2008 - even assuming, of course, that the RAE is not in itself a gigantic example of a government quasi-market failure (as might also be the money spent on QAA!).

Moreover, HE is perhaps *sui generis* as an economic activity in that the consumer (the student) is also partly an input/resource: the high entry scores at eighteen *probably* have a beneficial effect on degree results (partly via 'the peer effect'), and *certainly* they raise the HEI's league table position and hence the brand value that so clearly impacts on the future earnings/private rate of return of alumni. Given all this, not unsurprisingly Teixeira et al (2004) conclude at the end of some 350 pages that 'conceptually sound and empirically rigorous studies of the impact on allocative efficiency of different national and international higher education policies', especially in relation to attempts to steer market forces and behaviour, are 'badly needed' in order to reach the 'appropriate balance' between the role of government and the scope for markets in HE.

It seems unlikely that the pendulum swinging in recent decades so far from discredited government command-and-control delivery of many former public services will not, eventually and belatedly, sweep up HE and move it on from the last vestiges of its pseudo-nationalised industry status towards the brave new world of the relatively unrestrained marketplace, nationally as it is almost already globally (subject to progress with GATs): see, for example, Priest and St John (2006) on how far that pendulum has already swung with respect to the semi-privatisation of the US public flagship universities. The question is whether we as HEI managers will be ready, in terms of our skill base, metrics and market models, along with our business risk assessment and risk management algorithms, for the exciting challenge and for the interesting rough and tumble of operating in that marketplace - and especially if the US 'for-profit' lean-'n'-mean HEIs appeared on our doorstep, just as in a very narrow niche the University of Chicago has opened a London campus in direct competition with London and Cass Business Schools... After all, the average building society manager or gas/electricity/GPO (post office) time-server of the 1970s would never have predicted the total deregulation of their sleepy industries that occurred in the 1980s, and nor were many of them well-placed for facing real competition in responding to customer demands.

For how we may *not* yet be prepared, consider the example from last summer (2006) when we had the bizarre spectacle of HEIs declaring that, of course (perish the thought), they would not discount tuition fees (or by way of freebies such as a welcoming laptop or free campus gym membership) in attempting to fill Clearing spaces; and of the National Union of Students (NUS) applauding such restraint, while OFFA also prayed for no unseemly competitiveness by HEIs differentiating on price. We need to get over such squeamishness and accept that HE should no

more function on the basis of a cartel than the use of ‘manufacturer’s recommended price’ that characterised British industry fifty years ago or the ‘net book agreement’ that limited competition in the book trade until the early 1990s.

The NUS presumably does not oppose its members’ buying discounted ‘stand-by’ airline tickets or ‘off-peak’ train tickets, dropping in for ‘happy-hour’ pub drinks, and snapping up near the ‘sell-by-date’ marked-down items in the supermarket. Nor has anyone protested at another form of discounting as so-called ‘top’ HEIs have reduced entry grades to fill up surplus places in unpopular subjects such as physics, chemistry and engineering, and now increasingly also modern languages; and nor as we recruit ill-prepared overseas students into our ever-expanding taught master’s courses as long as they are clutching the necessary bundle of used fivers, or construct dodgy deals with dubious deliverers of HE in exotic foreign countries to expand our marketplace and provide our CEOs/SMTs with the expensive excuse for a jolly trip while being feted at the far-away degree ceremony (one hopes they don’t lose the Mace while out there!)..

An interesting example of the kind of model and metrics required, especially since it also recognises markets (the UK student-consumer ‘home’ market and the overseas student fee-payer ‘export’ market) is the Higher Education Policy Institute (HEPI) Report 26 (2006a) - the model is system-wide rather than HEI-specific, but it does divide the system into types of HEI. HEPI asks whether the higher UK/EU tuition fee of £3,000 pa for undergraduates in English HEIs from 2006-07 will enable them to improve teaching quality in response to consumer demand for smaller teaching groups (see also HEPI Report 27, 2006b), taking it as read that it has indeed declined over the past twenty-five years as the unit of resource has halved and the staff:student ratio (SSR) has doubled. The Report argues that the £3,000 alone, given that it will end up partly substituting for reduced growth in public funding for teaching and given increased costs (eg energy, capital/infrastructure replacement), is ‘unlikely to be sufficient to enable major reductions in staffing ratios’ (at ‘18.2 and rising’).

It also comments, however, that, ‘if the Government is serious about closing the gap between the funding of Higher Education in the UK and the US’ (1.1 per cent of GDP compared to 2.6 per cent), the extra revenues over and above the new fee income from 2006-07 would allow ‘a major improvement in the quality of university teaching’ (not least by giving HEIs the financial freedom to reverse their policy of prioritising research over teaching in recent decades). The cost would be some £3 billion per annum at 2003-04 prices by 2020-21 to get back to an SSR of 16, while also paying academic salaries at a *real* annual increase of 2.5 per cent in line with other professional groups (at c5 per cent pa with inflation at 2.5 per cent): ‘for the first time in living memory, staffing ratios could begin to fall’ (and indeed academic salaries to increase at competitive rates) if GDP spend increased to c1.3 per cent (or barely half the current US figure); and such ‘substantial improvements in teaching quality are in no way an outlandish goal’ (but only if HEIs do not divert the improving SSR into ‘an increase in the time devoted by teacher-researchers to research’).

The HEPI model also predicts riskier times ahead for those HEIs that under-recruit UK students in the context of a declining demographic pool from 2010-11 (although they may then be tempted to fill up with EU students), that depend on unduly concentrated sources of international students, or that rely too heavily on NHS-funded courses; and that HEFCE is unlikely to use public money to bail out HEIs that may be seen to be over-charging for courses that they can’t sell in those marketplaces. Moreover, as HEPI contemplates the financial health of the HE system and risks for specific types of HEI in the future of 2010-11 onwards, there was media speculation in September 2006 (*The Higher* 22.9.06) that already, as a result of the beginnings of ‘the market in HE’, some HEIs face bankruptcy because of under-recruitment of UK undergraduates for 2006-07; speculation that asked what Government would do if an HEI really did face severe financial problems in the near future...

Consequently, the HEPI model predicts increasing polarisation between comfortably diversified HEIs in terms of income sources and those heavily dependent on teaching fees, the latter group being more vulnerable to the drop in UK eighteen-year-olds or to any national and international economic recession. That said and as already noted, all HE *may* benefit from a greater

Government commitment to HE in terms of increasing its share of GDP by pumping in more public money (as opposed to, or alongside, raising the tuition fee cap for the second decade of the twenty-first century): a commitment, moreover, that is being talked of on an EU-wide basis if the EU, via the Lisbon Agenda, is to be competing with the US by 2025 (one assumes that even the EU Brussels Mafia knew the 2010 target is ludicrously impossible) in financing high-quality HE to drive economic growth – given the cost of the aging EU population in terms of State pensions and healthcare, however, sceptics might indeed question the likelihood of the taxpayer shifting resources to HE, and especially HE teaching (as opposed to shifting the emphasis on cost-sharing between taxpayer and student family, noting that half the US 2.6 per cent comes from the latter).

Moreover, cynics might think that, given the track record of the EU in regulating to the death, its increasing involvement in HE, on top of incompetent national government dabbling, reinforces the case for governmental retreat from the command and control of HE towards a *very* limited role of providing consumer protection for students within a deregulated HE marketplace and also providing the student with the voucher as the State's element of subsidy that can be cashed at the HEI selected by the student and topped up if appropriate, as well as purchasing national (or EU-wide) R&D needs from HEIs via a system of research councils. This could be HE's future in the context of the end of the post-War political consensus about the comprehensive, universal Welfare State as nations seek a new social contract with universities based on a balancing of taxpayer savings, increased tuition fees, access equity, and 'student-consumer' choice / 'student-consumer' protection – and, perhaps, some element still of public good/service. Adam Smith and Milton Friedman would approve!

Appendix 1

The Widening Participation agenda and the need for models

A lack of a dependable model in relation to evidence-based policy-making with respect to the 'widening participation' agenda is exposed in two items at the HEFCE website – David Watson, *How to think about widening participation in UK higher education* (2006) and the substantial *Review of widening participation research: addressing the barriers to participation in higher education* (Gorard & Smith 2006). The former notes 'the big message in the Gorard report: we don't really know what we think we know' and hence the WP debate is characterised by 'an almost pathetic search for the single-issue intervention that will improve the situation (often without consideration of the knock-on effects)...', along with 'a similarly dysfunctional search for scapegoats': 'there is no silver bullet in prospect'; it is 'an inevitably long-term' process to improve schools *and* to raise parental expectations/support. The Gorard Report stresses the sad lack of evidence-based policy-making when it comes to spending taxpayer (and HEI) money on WP: 'a number of important gaps in the evidence needed for policy and practice... a lack of clear knowledge about patterns of participation in HE... a danger that the widening participation debate is being hijacked by fees and finance issues... the limitations of the existing evidence on widening participation... many pieces of research were reported inadequately, and many were of poor quality'. If anything can be stated with any certainty, it is that 'patterns of participation in higher education are highly influenced by family background and early experiences' that leave some on 'learning trajectories' that bring them as 'marginal learners' nowhere near HE, and that fiddling with HE admissions is too little/too late ('the admissions process is at least neutral or even favour those from less elevated backgrounds... the inequity in access to HE in general, where it occurs, does not take place in the admissions process'); *unless* society is yet ready for a truly radical approach that breaks with HE inevitably reflecting the uneven opportunities offered across socio-economic groups early in life...

Hence the Report raises the issue of 'abolishing the need for prior qualification and the system of selection in terms of qualification' as being effectively discriminatory against certain socio-economic groups (SEGs) ('abolish qualifications as a discriminator' thereby 'overcoming the [inverse] ageism of the current system'): 'perhaps discrimination in terms of qualification will, in the near future, seem as unnatural as discrimination by sex, class, ethnicity, sexuality, disability and age as now...'; 'we do not select potential HE students on the basis of SES [socio-economic status], ethnicity, age and so on, as this is both unfair and illegal... we do select them on the basis of a substantial variable that sums up, and is very heavily correlated with, such background

factors'. Thus, how really to widen participation in HE and especially how 'to determine who gets the places at what are currently considered elite universities if qualifications, and all of the inequitable life course events that lead to them, are not taken into consideration', become the big issues: the Report floats the (daft) idea of 'an alternative model of allocating HE places' based on a minimum (indeed minimal) 'threshold level' of 'two A-levels or equivalent', and with places at specific HEIs (namely the elites now firmly colonised by the higher SEGs) 'allocated by geography, disciplinary specialisation or randomly' – as Watson wryly comments, 'This is unlikely to persuade the Headmasters' Conference' as the lobby-group for the private/independent schools that serve the upper SEGs!

Examples of models concerning factors influencing access to HE and also growth in demand for HE can be seen in Tapper & Palfreyman (2005: 94, 126), the pilot volume in a new 15-volume series (2008 onwards) on comparative 'International Higher Education' from Taylor & Francis/RoutledgeFalmer, the General Editors for which are David Palfreyman, Scott Thomas & Ted Tapper (details at the OxCHEPS site). The first example is from the chapter by Frans Kaiser & Hans Vossensteyn and the second from the chapter by Per Olaf Aamodt & Svein Kyvik.

Appendix 2

The US Spellings Report

A Federal Commission on the Future of Higher Education was established by the Secretary of Education, Margaret Spellings, in 2005, charged with examining US HE from four perspectives (access, affordability, quality, and accountability) and then with creating a comprehensive national strategy. Its 2006 Report (at <http://www.ed.gov>) is a hard-hitting critique of (indeed, even a polemic against!) US HE and HEIs: '...this Commission believes US higher education needs to improve in dramatic ways...It is time to be frank...we have found much to applaud, but also much that requires urgent reform...change is overdue... [it is] increasingly risk-averse, at times self-satisfied, and unduly expensive...'. A key theme is 'a lack of clear, reliable information about the cost and quality of postsecondary institutions, along with a remarkable absence of accountability mechanisms to ensure that colleges succeed in educating students'. There has been 'the seemingly inexorable increase in college costs' given that there are 'limited incentives for colleges and universities to take aggressive steps to improve institutional efficiency and productivity'.

Hence the Commission proposes 'a focused program of cost-cutting and productivity improvements', partly to be achieved by improving 'institutional cost management through the development of new performance benchmarks'. HEIs have to become 'more transparent about cost, price, and student success outcomes [using a "value-added" basis]'; and need also to be willing to share such information with students and families as consumers. And the draft Report presses on: 'Our higher education financing system is increasingly dysfunctional...accounting habits that confuse costs with revenues and obscure production costs...inadequate attention to cost measurement and cost management'. Moreover, not only is the cost of delivering HE 'soaring' and in need of radical cost-containment, the output by way of 'quality of student learning' is 'declining', not least because 'unacceptable numbers of students fail to complete their studies at all, while even those that graduate don't always learn enough'. Thus, the Report stresses the 'inadequate transparency and accountability for measuring institutional performance', combined with HE having 'taken little advantage of important innovations that would increase institutional capacity, effectiveness and productivity', and calls for 'a robust culture of accountability and transparency throughout higher education'.

But consider from half a century ago these comments from Riesman (1958) and contemplate whether it has always been, is still, and will for ever be thus: 'The more I have considered the matter, the more I have become convinced that the cause of improved education would be enormously aided if some *impartial yet fearless* agency could issue *vivid and candid* reports on colleges and schools of the sort Consumers Union publishes on commodities. It is astonishing when one thinks about it, that the FTC polices advertising for hard goods where often the worst that can happen is that one can be cheated of money, and that various consumer-research organizations provide reliable data on vacuum cleaners, driers, radios,

and canned goods, while no similar agency policies school and college catalogues and brochures and does research on the qualitative aspects of education *from the student's point of view*. If one loses a few dollars through misleading advertising, one can make others, but if one loses four years through misleading schooling, one cannot make them up – on the contrary, in some cases, one may have formed false values, false estimates of one's self, of others, and of the universe...I think it is conceivable that, with enough planning and inventiveness, a *respected* clearinghouse for *penetrating* reports on colleges could be created...[although] no one should underestimate the difficulty of finding out anything beyond routine data concerning the climates of sizeable educational institutions...[and] nor should one underestimate the resistance colleges would put up to this kind of investigation...' (emphasis added, lest one confuse what Riesman calls for with the QAA as a feeble dog that falls to bark in the night, if ever...).

Riesman, predating the Thatcher/Reagan 1980s challenge to the public sector that led to metrics/managerialism and the current Blair search for the Third Way in delivering such public services, also perceptively noted:

'These considerations make it evident that the problem of consumer research on educational institutions is part of a broader issue: how can we get adequate consumer research on *services* [original emphasis], not commodities, as our society increasingly spends its surplus on them – on education, medicine, recreation, government, psychotherapy, and advice of all sorts'.

Whether the Federal 2006 Spellings Report will usher in a Ralph Nader for HE and its applicants/students remains to be seen, but, in the context of public HE in the USA being a State function (and hence the US having 50 or so HE systems), one should probably not hold one's breath or bet on the (Republican?) Feds getting their way! (Just as one might be cautious over predicting that the USA will ever tackle the problem of the tens of millions of its population who are unable to afford/access effective health care, where the role of markets is another story – Callahan and Wasunna, 2006).

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