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Managing Economic Recession and Demographic Change: 'Tunnelling Through the Hump' in the 1980s, and 'Bridging the Gap' in 2015?

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For those university administrators who are very old, 1981 is etched in their memory as the point at which the Thatcher Government discovered universities and the fact that they cost the taxpayer quite a bit of money. There had already been some economising in public spending on universities during the late-1970s, but, in 1981, the Government announced a significant cut in Higher Education funding, which meant on average economies of some 10% over several years for most HEIs but almost one-third (sic) for hapless institutions such as Aston, Salford, and Bradford.

Some colleagues were hard-pressed indeed to manage such a process of severe retrenchment; others built a career on the fact that a more modest level of cut-back in public funding was dealt with by way of discovering the 'entrepreneurial university' (as, notably, for those of us at the University of Warwick). Some colleagues simply ignored the need to make economies of any kind, and in the case of University College, Cardiff, by 1988 there was a cumulative deficit in excess of £20m and within a year or so some 140 academics had been made redundant and UCC had been swallowed up by the well-managed UWIST next door…

Another issue floating around in the late-1970s and early-1980s was the idea that there was a bulge of youngsters coming through demographically and whether or not universities would expand to accommodate their demand for HE, or whether we would 'tunnel through the hump' and remain steady-state in size and thus denying HE to a larger proportion of the younger generation that hitherto. Of course, we grew like topsy, watered down the unit of resource, and have been moaning about it ever since…

Are there any useful lessons from the above experiences in terms of what might be faced by university managers over the next five years or so as, firstly, there will undoubtedly be a deep and lengthy recession (which is only fitting since it will be following the prolonged economic binge of c1995-2007, and the bigger the party the more painful the hangover…); and, secondly, we are due to see a decline in the demographics of our key cohort of punters (the eighteen to twenty-five age group), amounting to 15% or more in some areas of the country (even if there *may* be some amelioration by virtue of higher demand from growing ethnic minorities and immigration minorities than perhaps originally expected when the UUK analysis was first undertaken).

Treating the second problem as simply one of falling demand for the degree course product, there are obvious things to be done: finding youngsters from elsewhere in the world; finding older first-time students; offering those who already have a degree the chance to get yet another one (albeit, probably, part-time). The problem with this strategic way through is that the recruitment of overseas students is becoming increasingly competitive as the US public institutions begin to discover the milch-cow that is international student fees, as similarly the mainland European HE systems do the same (and start teaching in English as a consequence), and as other countries such as Australia offer not only a degree but also citizenship (and it is rather sunnier down there than at Scunthorpe City University, UK). Similarly, mature students have been pretty well mopped up by an expanded HE system over the past twenty years, compared with the 1980s; and the recent massive growth in PGTs depends on students being self-financing (more difficult in a recession: see below…). Hence it is extremely difficult to believe that the demographic decline will not lead to some level of retrenchment in HE activity over the next five-ten years (even if, happily, there appear to be enough babies/toddlers around at present to indicate that HE numbers will pick up 2020 or so and beyond). Will there have to be retrenchment in the academic staff payroll and related institutional costs/activities, or could one imagine an HEI somehow 'bridging the demographic decline/gap'?

As for recession, the impact on HE is fairly complicated and somewhat mixed. On the one hand, it could be that vocational taught Masters courses will be even more in demand: better to be unemployed but in HE, working for an extra degree, than unemployed and simply sitting at home with no discernible beneficial effect on the CV. That said, if the taking of such degree courses is dependent on borrowing cash, possibly from the usually helpful 'Bank of Mum and Dad', then cash may be less available in the context of recession combined with credit-crunch (and not least if 'the Bank of Mum and Dad' has gone bust, along with most other banks in the UK, and needs to rebuild its capital as house prices decline, pension values erode, the cost of gas and electricity increases, etc.). Recession, of course, also hits the conference trade earnings of HEIs, as, usually, the first thing that businesses cut is 'Staff Training and Development'.

Similarly, recession almost certainly means a much less benign public spending environment for HE: public spending on unemployment benefit and social security automatically increases as recession hits and the number out of work grows, and governments normally then seek cut-backs in other areas of public expenditure which are not particularly politically sensitive/important (i.e. protect policing, prisons, health care and schools, but cut transport and, of course, HE). And this time around in terms of coping with public spending cut-backs, we will not be able to look to the discovery of the milch-cow of international student tuition fees as we did back in the 1980s, since we have already discovered and, arguably, milked dry that particular milch-cow – note also the issue of increased competition in recruitment of international students, as discussed above…

Last time it is also arguable that we were, prior to circa 1975-81, relatively well-funded as a sector, from the time when universities were seen as 'a good thing' in the 1960s. Now we have much less fat into which one can cut; and, certainly, we don't have the quantum of academic dead-wood that could be jettisoned in the redundancy programmes of the 1980s, since, these days, we have, of course, all those expensive and wonderful HR systems and the rigours of academic appraisal, which means that (in theory) all our academic staff are hugely valuable and utterly necessary… Moreover, back in the 1980s we were able to part-finance redundancy programmes through the largesse of the USS pension scheme, which paid for enhanced pensions (albeit by increasing the employer contribution rates to 18.5%). Now, pension rates are likely to go up, not in order to help institutions dump academic staff, but simply to keep the scheme solvent - another added cost for institutions at a time of recession hitting some key sources of income.

So, the public funding income stream becomes very vulnerable in recession, as does the flow of international students (since this is a global recession and also impacts on the middle-classes in China and India who might have got into the habit of sending their precious ones in our direction for HE). Making economies should, in theory, be even more difficult in 2011 than it was back thirty years ago in 1981. What, then, of potential new income-streams? US HEIs relied during the 1980s and the 1990s on bond issuance and securitisation, and hence their HE party ran on from the 1960s all the way through to the currently unfolding credit-crunch: now they are severely hit as the ability to call upon such capital has declined with the freezing up of the capital markets, and those markets also supplied the ever-bountiful flow of student loan money ('Here is the bad news, the tuition fees are going up yet again; but here is the good news, we can point you towards yet another source of tuition fee low-cost loan money'.)

Another much talked about way out of financial depression is spending vast amounts of money on a Development Office which, in turn, will rake in unbelievable sums of money from grateful alumni, who have just been waiting around for the chance to have their wallets picked. As noted above, in the context of declining house values, eroding pension funds, likely higher taxes, higher cost of living, rising unemployment, and so on, it seems less likely today than when optimistic reports about alumni-giving were written a few years ago that alumni-giving is likely to be such a sizeable factor in our future flow of income. Similarly, of course, the idea of intellectual property exploitation and technology transfer, since so much of the financing of spin-out companies was, as venture capital and early-stage private equity, funded by silly levels of borrowing and by a benign investment era when individuals poured money into venture capital and private equity funds (often with helpful tax-relief in the case of the former). Even so, very few HEIs world-wide have ever made serious money out of IP and TT.

Where does all the rather dreary and depressing above actually leave us? Arguably, we are left with being in the very familiar and traditional position of any public sector or quasi-public sector entity that faces Treasury economies: we *might* be able to find a bit of extra income from here or there (but it is unlikely to be at the level of salvation that we could tap into in the exciting days of 1980s income-generation), but, otherwise, we are back to the boring process of making tedious, detailed and repetitive economies in the way in which we go about our business – as well as simply reducing our volume of business to reflect falling demand. The process of reducing volume will answer the interesting question of whether a nation of sixty-five million people or so *really* needs, and can *actually* afford, about one hundred and fifty HEIs (and it might answer a subsidiary but important question of whether there are truly economies of scale to be got from the merger of HEIs)…

Perhaps somebody should commission a series of articles from those of our colleagues, now in the main safely and happily retired, who were at the forefront of coping with the 1981 cuts, and whose retrenchment skills might now usefully be transferred to a younger generation of hitherto relatively privileged university administrators. Plus ça change, plus c’est la meme chose: or did you really believe Chancellor Brown when he kept booming from the House of Commons despatch box that he had abolished boom and bust economies?