Helen Carasso and William Locke

Paying the price of expansion: Why more for undergraduates in England means less for everyone

Introduction

As participation in higher education has grown in the United Kingdom (UK) - to the point where it is approaching 50% in England - successive governments have had to address the issue of how to fund the growing costs of teaching and student support at the same time as increasing access and widening participation. While budgetary considerations have inevitably played their part in the incremental increase in maximum full-time undergraduate fees in England from zero in 1997/98 to £9,000 in 2012/13, politicians have also argued that it is right in principle for students to contribute to the cost of their education. This "cost sharing" (Johnstone, 2004) has been justified with reference to the personal benefits that individual graduates gain from their degrees. Yet the value of this "graduate premium" is contested (Thompson and Bekhradnia 2012) and certainly varies between subjects, institutions and the gender of the student.

Roger Brown has been critical of an increasingly ideological form of policy making in higher education which has taken hold since the mid-1980s. This has emphasised the economic role of higher education and created a higher education 'market' (Brown, 2008 and 2013). It was particularly highlighted by the very limited research evidence employed by the 2010 Browne Report (Browne, 2010), especially when compared with its predecessors, the Dearing and Robbins reports.

The aim of this chapter is to review the arguments that policymakers used to justify the significant changes to fees and financial support for UK and European Union (EU) undergraduates at universities in England that were introduced in 1998, 2006 and 2012. We will also compare the political rhetoric with the research evidence that was available at the time to inform the formation of policy, and with some of the observable outcomes.

1998: A student contribution is introduced, but the funding gap remains

By the time the "The Dearing Report" (the Report of the National Committee of Inquiry into Higher Education - NCIHE, 1997) reported to Parliament in July 1997, public funding for universities had fallen to 76% of its 1980 value (Watson and Bowden, 1997: 15). University Vice-Chancellors were concerned about their ability to maintain the standards of their institutions' teaching and research; in 1996 they decided collectively that they would introduce a form of 'top-up fees' unilaterally, unless rapid action was taken to increase the resources that were available to their universities (Brown with Carasso, 2013: 82).

It is perhaps therefore not surprising that, on the day that the ten volume Dearing report was published, the Government made its response in Parliament. The then Secretary of State for Education and Employment, David Blunkett said:

> The [Dearing] committee recognises that we cannot afford further improvement or expansion of higher education on the basis of current funding arrangements. Students should share both the investment and the advantages gained from higher education: rights and responsibilities go hand in hand. The investment of the nation must be balanced by the commitment of the individual: each will gain from the investment made.
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> [...]
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> We must develop a more efficient system than the present confusion of loans, grants and parental contributions. For lower-income families, instead of the remaining grant, students' living costs will be covered by a maintenance loan of the same value as the current grant and loan package. An additional maintenance loan equivalent to the tuition fee will be available to students from higher-income families. We shall, however, ensure that the poorest students do not have to pay fees. That is the best way of encouraging access to free education for the least well-off. We are equally determined to ensure that there is no increase in parental contributions." (Hansard, 1997: col. 954)

The main financial measures (which were subsequently to form part of the Teaching and Higher Education Act (1998)) he proposed were:

- The introduction of means-tested fees of up to £1000 per year (with only index-linked increases on that limit permitted). These were to be paid 'up front' by the undergraduate
- Abolition of means-tested non-repayable grants
- An increase in the sums available through student loans – with favourable repayment terms

However, as far as undergraduate fees and funding was concerned, the Dearing Committee (NCIHE, 1997) had actually recommended to the Government that it should:

- Review the total level of support for student living costs annually taking into account the movement of both prices and earnings (recommendation 70)
- Shift the balance of funding, in a planned way, away from block grant towards a system in which funding follows the student ... with a target of distributing at least 60 per cent of total public funding to institutions according to student choice by 2003 (recommendation 72)
- Introduce, by 1998/9, income contingent terms for the payment of any contribution towards living costs or tuition costs sought from graduates in work (recommendation 78)
- [...] Introduce arrangements for graduates in work to make a flat rate contribution of around 25 per cent of the average cost of higher education tuition, through an income contingent mechanism.[....] The contributions made by graduates in this way should be reserved for meeting the needs of higher education (recommendation 79)

So the report did not suggest that fees should be paid by undergraduates 'up front'; rather, it advocated a move towards a voucher-based system of university funding in which student choice would play a significant role in determining the distribution of public funding within the sector. There was also no proposal to abolish the means-tested non-repayable grant for students from lower-income families. As Watson and Bowden (2007) comment:

> New Labour's first-term policy on higher education [...] was structured around Dearing, with the serious modification of his recommendations on fees and student support, which has haunted them ever since. Essentially, the government was too greedy. Ministers took the Dearing recommendation of a student contribution to course costs and ignored what the report said about living costs, especially for poorer students. Simultaneously, they completed a Conservative policy of turning all student grants into loans. [...] This precipitate decision has become the Achilles heel of subsequent New Labour policy on higher education. (Watson and Bowden, 2007:29)

This 'Achilles heel' was, according to one key policy-maker, principally for two main reasons:

> My view then was that it was too little, the [1998] reform, and that it was flawed in one or two key respects, particularly the up-front nature of the fee that made it very inflexible and secondly the lack of any mechanism or flexibility for increasing it over time, when it was clear that universities were going to need a substantial additional fund of non-state income and, on any credible co-payment

> basis, this was probably going to involve more student contribution over time. (Adonis, 2010)

It is therefore not surprising that, within just a few years, the question of undergraduate fees was again on the political agenda.

2006: Top-up fees and the student as consumer

The introduction of a student contribution to fees in 1998 marked a significant shift in the principles behind the funding of studying for an undergraduate degree at English universities. However, the (index-linked) £1000 was still not enough to compensate for the real-terms decline in public funding for UK/EU students. By 2001-02, it had reached 63% of its 1979-80 value (Watson and Bowden, 2007 : 36-37).

During this period (when participation stood at around 40%), the Labour Party had set a target of increasing participation in higher education among young people to 50% by 2010 (Blair, 1999, Labour Party, 2001). However, there was little incentive for universities to increase undergraduate places as teaching was still underfunded, in spite of the introduction of the £1000 fee in 1998 (Brown, 2003: 3-4). At the same time, the principle of variable fees was already well-established for overseas undergraduates, as it had been in place since 1980, with different levels of fee set not only by individual institutions, but also for different courses at the same institution (UUK, 2001).

It was against this background that the concept of variable undergraduate fees for full-time UK/EU undergraduates at English universities was first discussed in earnest by policy-makers in the early 2000s, as Andrew Adonis, Head of the Prime Minister's Unit Policy under Tony Blair, explained:

> Part of the reason that we laid great store by the variability of the fee and the statutory instrument regime for changing the fee at the time was that we did not want any future government. [...] to be forced to pass primary legislation every time you wanted to make adjustments to the student finance regime.
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> And again it was experience of Australia that led us to think that, if we set up a system on this basis, it would be robust over time. The Australian HECS system had lasted nearly ten years by that time, and our regime had only being going four since Dearing, but it already required one piece of primary legislation. So we were keen that we should have a robust, flexible system that wouldn't require primary legislation every time a change in fee level was contemplated." (Adonis, 2010)

With these considerations in mind, early in 2003, the UK Government announced its proposals for revisions to undergraduate fees and funding. However, ministers knew these would be highly contentious:

> It was the Prime Minister's view in 2001 that we couldn't continue to duck [the underfunding of university teaching] if we wanted world-class universities and to expand student numbers. It was that decision, in the knowledge of the fact that any reform would be politically controversial, that put the issue very firmly on the agenda. If it hadn't been for his personal support for it, there's no way of course that the Education Department alone would have been able to start formulating quite radical policies in a controversial area." (Adonis, 2010)

They continued to be controversial as the key Parliamentary vote approached. Speaking a fortnight before that, the then Prime Minister, Tony Blair said:

> It's a big reform and these reforms are always difficult, and if you look back on the history of big social, economic, political reform in the past 20 or 30 years, they have always caused controversy because we're asking people to think anew and there are two elements of argument against us at the moment. One is to say, look University education should be free and therefore the whole concept of fees is wrong. Now I believe it is not fair to put all the burden on the general taxpayer, and I think the country will understand that as you expand higher education places it is fair to ask for the graduate to make a contribution back into the system once they graduate, but we have got to win that argument.
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> And the second argument is on the variability of the fee and there I think it is important to stress that to force all Universities to charge the same for every course and every University to be treated the same is just not either realistic or fair. There will be 2-year foundation courses that Universities will want to charge less for, than say a 3- or 4-year science or engineering degree, and I think that's perfectly sensible. Or a law degree. And I think to encourage that diversity is a good thing, not a bad thing. (Blair, 2004)

In practice, the level of opposition that the Government faced in Parliament led to a reduction in the maximum permitted fee from £5000 to £3000. In spite of this concession to those who were concerned about the extent to which the proposed increase in fees might deter participation in higher education, when the crucial vote was held in the House of Commons on 27 January 2004, it passed by just five votes, even though the Government had a majority of 161.

The main points of the resulting Higher Education Act (2004), (which were enacted for full-time UK/EU undergraduates enrolling on a degree course at a university in England from autumn 2006) concerning fees and funding were:

- Maximum annual student contribution to fees increased to £3000 (with only index-linked annual increases allowed until at least 2010), with deferred liability until the graduate is earning – the amount charged may vary between subjects within institutions, but should not vary within a recruitment cycle

- Re-introduction of means-tested, non-repayable grants, with eligibility dependent on Residual Household Income (RHI) of a student's family
- Increase in amount available to students through low-cost loans (0% real rate of interest, only repayable if/when annual income exceeds £15,000, written off after 25 years) to cover fee liability as well as living costs
- Any university wishing to charge more in fees than the basic amount (£1200 in 2006 with index-linked annual increases) had to enter into an Access Agreement with the Office for Fair Access (OFFA) outlining financial support available and other measures in place to promote equality of access to higher education.

The provisions concerning bursaries and Access Agreements were put in place to address concerns that potential applicants from lower-income backgrounds would be more discouraged than others from taking out student loans. There is some evidence that participation patterns changed following the introduction of the £3000 fee, in that those from lower socio-economic groups were more likely to apply to a university: near UK; with a low cost of living; or where they expect more opportunities for term-time opportunity (Callender and Jackson, 2008: 426). However, whether because of the financial support that universities were obliged to offer or not, there is no clear evidence that the 2006 increase in fees reduced participation in higher education by some groups more than others.

At the same time, the outcomes of the 2006 changes did not match the expectations of politicians and commentators concerning the fees that would be charged either. These expectations were outlined subsequently by Charles Clarke, who was Secretary of State in 2004, responsible for higher education policy:

> The system of student finance established by this legislation was intended to allow different fees to be charged for different courses at different HEIs, in accordance with their differing quality and value for future life, but in a way which did not carry adverse consequences for those applying to university from poorer backgrounds. The whole repayment system, which removed the upfront payments and established a payback after graduation through the tax system, was designed to achieve this goal. (Clarke, 2010)

However, in practice, there was little variability in fees charged. All universities charged one fee for all their courses and in 2006, just four charged less than the maximum permitted £3000. By the time Charles Clarke was writing in 2010, all universities were charging the maximum fee for all their courses.

However, according to one Vice-Chancellor, who as President of Universities UK, represented the sector in negotiations with the Government in 2003/4, politicians were playing a longer game:

> [...] for people like Blair and Andrew Adonis and Charles Clarke this was all part of a bigger strategy to change higher education. I think they did believe that fees would go up further after a few years when we'd all got used to fees being £3,000. [...] So they saw the Higher Education Act as being a historical turning point, but not the end of the story. And that's why they were adamant that the fees had to be variable. (Crewe, 2010)

Thus further changes were widely expected to follow the next review of undergraduate fees and funding, the Browne Committee.

2012: From cost sharing to cost transfer

The Report of the Independent Review of Higher Education Funding and Student Finance chaired by Lord Browne (Browne, 2010) was a very different exercise to previous reviews of higher education, being largely geared to assisting the Coalition Government in reducing public expenditure – at least in accounting terms. Based on submissions to the Committee, the Browne Report claimed a consensus around the need for a graduate contribution to the costs of higher education. This, of course, may have just been an acceptance of the status quo, and of the likelihood that the next government would have to increase that contribution, rather than a principled agreement to an increased graduate contribution. However, the Report effortlessly slid between this and the assumption that the contribution should cover the ***majority*** of the costs and, in some cases (in classroom and library-based courses, for example) the full costs of provision (or, even, more than the actual costs).

Two reasons were given in the Report for this: first, that graduates receive more direct benefit from their higher education qualification than the public receive, and second, that higher education study is neither compulsory nor universal – that people choose to go, providing they are sufficiently qualified. We can dismiss the second of these instantly, because it is merely an argument for ***some*** individual contribution, and not necessarily for a majority contribution. The main reason, then, was the claim that the private benefits to the individual are more than 50% higher than the public benefits. The Report cited Organisation for Economic Co-operation and Development (OECD) research to support this view, although it did not identify in which of the hundreds of tables and charts in *Education at a Glance* (OECD, 2010) its authors found this 'evidence'.

As many have pointed out (Collini, 2012; McGettigan, 2013; Callender and Scott, 2013), the decision to treble tuition fees and slash public funding for teaching was not based on evidence and was a radical mix of neo-liberal ideology and the perceived need to curtail public expenditure. However, it is interesting that Lord Browne still felt the need to refer to sources of 'evidence' that supported his committee's – and the Government's – conclusions. However, this 'evidence' is only deployed in order to 'illustrate' the arguments presented. There is no pretence at evidence-based policy-making.

The Report also maintained that, although the 2006 reforms were designed to bring in more private contributions to HE, there had been no increase in the proportion of the private contribution made by students or graduates. It 'illustrated' this with a table from a presentation made to the Committee by the Institute for Fiscal Studies (IFS 2010) which suggested there was no change in the balance of investments in HE by taxpayers, students, graduates and universities between 2003/04 and 2008/09. However, the IFS used a 'zero sum' model based on a limited sample and a number of assumptions, including no changes in the repayment behaviour of graduates, and this allowed Browne to underplay the significantly increased debt incurred by students following the 2006 reforms. The Report concluded:

> The debate may have changed in favour of changing the balance between public and private contributions to higher education, but the reality has not. (Browne, 2010: 21)

However, it then goes on to propose changes to the variables in the existing fees and funding system – the fee level, the interest rate, the salary threshold at which graduates start to pay and the period after which the loan is written off. These variables were to be changed, but not the system itself, and the Coalition Government largely implemented these proposals, with a few significant if not fundamental modifications. Working within the legislative framework that had been established by the Higher Education Act (2004), they were able to make these changes incrementally and without primary legislation; this reduced the potential for contentious debates and votes in Parliament, but also resulted in piecemeal changes, rather than a coherent package of reforms.

As others (e.g. Callender and Scott, 2013) have argued, there is much continuity between the 2006 New Labour reforms and the 2012 Coalition Government changes. Also, as we have rapidly discovered, the RAB (Resource Accounting and Budgeting) charge – the eventual cost to the taxpayer of the unpaid loans – has leapt from the Government's initial estimate of 30% to over 45%, and so threatens to wipe out any savings it might make. So there is a danger of history appearing to repeat itself (Carpentier, 2012). The Government may have wished to transfer the majority of the costs of higher education study to graduates, but its policies will not achieve this, despite ratcheting up their levels of debt.

A final comment on the Browne Report – it did not recommend a cap on tuition fees, at £9,000 or more. This was because it concluded that "There is no robust way of identifying the right maximum level of investment in HE" – that is investment by students and graduates – and so, effectively, the market should determine this. Many, including economists and econometrics experts, fundamentally disagree with this argument, and we will go on to explain why, and what this might mean for fees and funding policies in the future.

'Stealing' the social (and private non-market) benefits of higher education

The analysis on which the Browne Report proposals and the Coalition Government's – and, indeed the preceding New Labour Government's – policies were based does not reflect the true value of higher education to an individual or to society. This is because it is based on investment theory – derived from the finance literature. It draws on a limited range of evidence to calculate the market benefits for individuals, in particular, market earnings and employment benefits. It assumes not just the existence of a market and market behaviour, but the *predominance* of the market and market behaviour, and it uses historical data to predict the future. In contrast, the econometric approach taken in labour economics includes the non-market private and social benefits of higher education, and adds these to the calculation of the market benefits, both private and public.

These wider benefits of higher education include the economic and social impacts of an increasingly highly skilled workforce, the generation of new ideas and contributions to social capital. There are also contributions to democratic institutions, human rights, political stability, lower welfare costs, lower health care costs, and lower policing and prison costs, for example (Brennan *et al*, 2013). An economic value can be calculated for all of these, and one of the most sophisticated assessments of this kind is Walter McMahon's *Higher Learning, Greater Good: The Private and Social Benefits of Higher Education* (McMahon, 2009; see also McMahon, 2010). In this book, McMahon identifies and measures the non-market private and social benefits of higher education – here and now, not in the future – and using the best data available. He estimates that, together, the private and social non-market benefits are more than half (68%) of the total benefits of higher education. So, it is fair to conclude that the taxpayer should be contributing at least half of the costs of higher education, and that students and graduates should be covering no more than half.

However, the privatisation of higher education, which has resulted in the underestimation of the social benefits of study, has led to under-investment in undergraduate and postgraduate education which, in turn, has led to market failure. Fewer qualified students are pursuing higher education study than could, especially part-time, mature and postgraduate. Also, they are increasingly choosing subjects that are perceived as more likely to lead to immediate employment. Yet non-vocational subjects are likely to yield higher non-market private and social benefits, such as creativity, inter-cultural understanding, the development of democratic institutions and the rule of law. The devaluing of these benefits is leading to a long-term skills and knowledge deficit which, in turn, will lead to reductions in overall economic efficiency. It is also diverting universities and colleges towards meeting private needs and away from their broader social purposes, such as widening participation, community engagement and increased public understanding. It will also make it harder to persuade politicians and the public to restore the balance of public and private investment in higher education in the future. Ultimately, the losers will be society and the longer term efficiency of the UK economy.

Let us briefly return to the OECD report that was used by Browne to justify transferring the costs to graduates. If he had read on further, he would have found the following passage. Indeed, many would rather wish he had, and then pointed it out to the Coalition Government:

> On average…the net public return from an investment in tertiary education is…almost three times the amount of public investment in tertiary education across OECD countries, and as such, provides a strong incentive for governments to expand higher education…. Public investments in education, particularly at the tertiary level, are rational **even in the face of running a deficit in public finance**s. (OECD 2010: 145, our emphasis)

Conclusion

The arguments employed by policy-makers to justify introducing fees for undergraduate, full-time study, and then trebling these twice have been modified on each occasion, reflecting the ideological persuasion and the political and economic challenges of the government in power at the time. Research evidence for these complex and important decisions barely made an appearance and, if it did, it was deployed highly selectively and then sometimes in contradiction with the researchers' own conclusions (Locke 2009). In 1998, students were required to 'share the investment' in their higher education study with the nation, since their earnings on graduation would rise. In 2006, these unpopular upfront but flat rate fees were to be replaced by increased variable fees repayable on graduation to reflect the differential quality of education between institutions and the variation in value between graduates in different subjects. It quickly became apparent that these would be variable only in name. The 2012 transfer of the majority of the costs of study to graduates was justified on highly questionable 'evidence' that they would gain half as much more direct benefit from their higher education study than the public would receive. As Roger Brown has described it, this is 'policy-based evidence' not evidence-based policy (Brown 2008; Brown, 2013).

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