

## The marketization of English higher education and the financing of tuition fees

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This article explores the marketization of English higher education with particular reference to the introduction of undergraduate student tuition fees. It argues that the breakdown of the political consensus that underwrote the public funding of undergraduate student funding was the consequence of ideological and economic changes that, following the threat of some universities to impose top-up fees, resulted in the appointment of the Dearing Committee and thereafter the steady introduction of variable fees up to a ceiling of £9,000 per annum, repayable through income-contingent loans. It reviews the contemporary breaking of the political consensus on this issue, as evidenced by the Labour Party's promise in the 2015 general election campaign to lower the maximum annual fee to £6,000, with the further possibility of replacing income-contingent loans with a graduate tax. It concludes by putting forward the policy options that are likely to emerge in the context of the publication of the current government's Green Paper on higher education.

**Keywords:** public funding; student loans; market; ideological change; economic pressure; graduate tax

### Introduction

The increasing marketization of English higher education can be analysed with respect to a number of dimensions, but at its heart the payment of tuition fees by home-based undergraduates looms large (so bringing English higher education closer to both the long-established US model and the recently reformed Australian system). It is the introduction of variable tuition fees that is widely seen as the vital step in the marketization of English higher education (Farrell and Tapper, 1992; Brown and Carasso, 2013; McGettigan, 2013; Palfreyman and Tapper, 2014). While the interpretations of the wider marketization of higher education are best described as ambivalent, the imposition of variable tuition fees has been widely condemned and the issue is still far from resolved – note the decision of the Labour Party to include in its 2015 general election manifesto a promise to reduce the current fee ceiling of £9,000 per annum to £6,000 (coupled with the possibility that had it formed the next government, it would have sought to replace funding via income-contingent loans with a graduate tax). This article is an opinion/discussion piece written in part to point out the pitfalls of such a move (now very remote for the next five years), and to argue for the continuation, albeit with some accompanying reforms, of student tuition fees repaid through a scheme of income-contingent loans.

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### **The coming of variable fees: The interaction of ideological and economic variables**

For much of the history of the English universities, higher education policy has been driven by a combination of ideological and economic pressures. Throughout most of the twentieth century, education was perceived as a positive social good, the expansion of which also allegedly enhanced the progress of the economy. However, much of the political support for such claims focused upon the state provision of free primary and secondary schooling, reaching its zenith in the passage of the 1944 Education Act. For higher education the political focus was truncated – the need to augment the representation of students from working-class families and for a system that would be open to all talented individuals regardless of their socio-economic circumstances. To this end, from 1918 onwards a patchwork-quilt pattern of support for prospective undergraduates was initiated by the local education authorities, which started to pay tuition fees and provide maintenance grants, although the costs were reimbursed by the Treasury. However, following the Anderson Report (Ministry of Education, 1960) the system was centralized and rationalized as the national government assumed direct responsibility for making these payments.

While it may have been feasible to have imposed upon the Treasury a growing burden of public expenditure, this became increasingly problematic when the expansion of higher education considerably increased that burden. It should be noted that even Lord Robbins (1980), who can be regarded as the ideological architect of that expansion of higher education, came to recognize that continuing expansion should be funded at least in part out of a student loans scheme rather than the public purse. In fact so as not to increase unduly the burden of public expenditure, governments became increasingly parsimonious in their funding of higher education expansion, and hence (although the overall burden may have continued to rise) expenditure per student declined sharply (Greenaway and Haynes, 2000). Thus in the 1970s and 1980s universities turned increasingly to the recruitment of overseas students (for whom they were required to charge an economic fee) to balance the books. Consequently, the universities themselves were thinking increasingly of alternative ways of funding tuition costs, while operating a lucrative market in international students – an experience they could draw upon when it came to charging fees from the home student market.

These pragmatic economic considerations were steadily reinforced by the growing ideological consensus that the pursuit of higher education enhanced what was essentially a private rather than a public good, and thus it should be paid for by the individual recipient rather than from the public purse. Not surprisingly, such claims gained increasing strength in the years of successive Conservative Governments under Margaret Thatcher, although ironically, thanks to internal party divisions, not one of her governments succeeded in bringing a student loans scheme to fruition (Farrell and Tapper, 1992: 274–84). But the soil had been thoroughly tilled politically for the Dearing Report (1997) to lay the grounds for the subsequent Labour Government, under the auspices of the Secretary of State, David Blunkett, to take the vital step of introducing a flat-rate income-contingent loans scheme, and subsequently to underwrite variable fees. There was an initial ceiling of £1,000 per annum. This was raised to £9,000 in the early years of the Coalition Government, a development supported by the findings of another official review of higher education, the Browne Review, *Securing a Sustainable Future for Higher Education* (Browne, 2010). However, this review did not recommend a fees ceiling. As noted, there has been much discussion of the fees ceiling being lowered to £6,000 per annum, with the possibility of income-contingent loans being replaced by a graduate tax to secure the necessary funding (Gill, 2015: 5). The danger of removing the ceiling on tuition fees is that, without a viable accompanying policy on student loans, the most expensive universities would possibly be out

of the reach of students from poorer families, which would risk creating a division in higher education to parallel the one that marks the private secondary sector, with its stratum of a small number of very expensive schools.

### **Politics and a possible guiding principle for the financing of tuition fees**

In view of the strength of the underlying ideological values and the healthy size of their parliamentary majorities, it is perhaps surprising that a Thatcher government did not succeed in introducing a student loans scheme. Already Bahram Bekhradnia, current President of the influential Higher Education Policy Institute, has reportedly called Labour's £6,000 fees announcement 'terribly disappointing' and 'a mouse produced for electoral reasons' (Morgan, 2015: 5). In an elaboration of his attack, Bekhradnia is reported to have said: 'This would have been the perfect opportunity for Labour to take a principled stand in favour of direct and substantial taxpayer funding of higher education, balanced by a much-reduced student fee and reduced government subsidy [for fee loans]' (Morgan, 2015: 5). This appears to be a plea for a return to the proposals of the Anderson Report, which for many within the Labour Party would be the most appropriate way forward. Thus we face the possibility of internal party machinations parallel to those that the parliamentary Conservative Party experienced in the 1980s.

Moreover, before attempting to enunciate a key guiding principle, it is important to note that the context within which a future funding policy will evolve is critically different from that which prevailed when the current policy unfolded; it will be strongly influenced by the fact that a loans scheme, in various guises, has now been in operation for over ten years. For all its limitations it has stood the test of time and now there are many who would argue that it is more important to focus on the provision of maintenance grants than tuition fees. There is a wealth of established policy knowledge to draw upon. Firstly, and perhaps most surprisingly, is the relatively limited impact that the loans schemes have had upon student participation levels. These have recovered from the reduction that occurred following the imposition of variable fees (especially when they were raised from a maximum of £3,000 to a maximum of £9,000 per annum). Furthermore, it now also appears that access from the more socially deprived sector of society has increased rather than declined, although there is still some way to go before there is anything approaching parity of access across all social groups. How is this significant change to be accounted for?

It was always likely that there would be a period of time before prospective students absorbed the shock of the change in policy direction. Moreover, in a period of economic recession for many, it may make more sense to continue in full-time education rather than to look for a job, especially as a degree is still a necessary resource for accessing professional employment. Finally, and most critically, under the auspices of the Office for Fair Access (OFFA) it was expected that the universities would use some (25 to 35 per cent) of their fee income (between £6,000 and the amount charged) to promote wider access. Consequently, the universities started to compete with one another to offer fee reductions and/or bursaries to applicants from economically poorer families. It meant that all students, or their well-to-do parents, were providing the resources to secure the fee reductions or bursaries for some, an arrangement that was administered by the universities, with OFFA approving the terms in the form of access agreements. It may sound like a very byzantine set of arrangements, but it appears to have had the desired effect of balancing somewhat the social intake of student access to higher education. It is almost as if we have returned to the nineteenth century, when access to higher education by students from poorer families was invariably dependent upon financial support provided by the university, albeit with either endowment income or those students who paid full-cost fees

providing the financial resources. Moreover, there is a clear recognition that the terms governing the repayment of loans are relatively generous: no repayment until income reaches £21,000 per annum, suspension of repayment if income falls below that level, and cancellation of the debt 30 years after repayment commences. The inevitable consequence is that an increasing proportion of the total debt will never be repaid, leaving the Treasury to meet the shortfall. The consequence is that the payment of tuition fees remains a considerable burden upon public expenditure, which should be welcomed by those who believe that higher education is a public good and thus its costs should be underwritten by the public purse (although the inclination is to acknowledge the irony of the situation rather than to welcome it).

The second contextual change is that, although there may be a broad acceptance that higher education is a public good, this has much to do with its enhancement of knowledge and promotion of high-status culture, and it does not mean that it is not also a private good and that students as its beneficiaries should not meet at least some of its costs. Certainly, as seen in the policy stance of Universities UK (UUK) there is considerable support for this view within the universities (see the response of its Student Funding Panel to 'the new IFS report on student funding' – Universities UK, 2015). Moreover, the current funding via income-contingent loans with a high ceiling level gives considerable control to the universities to plan their financial futures while distancing the prospect of bureaucratic state direction of their admissions policies. Of course, there is some nostalgia in looking back to the immediate post-Anderson years, before the post-Robbins expansion took off, and in imagining that the state will in future continuously fund higher education generously on an agreed quinquennial basis. But political reality suggests that this is not an area of public policy likely to be sheltered permanently because the demands of other policy imperatives (for example, health care for the expanding elderly population) have increasingly significant political appeal (for example, consider the 2015 general election manifestos of all the major parties, in which concern for the funding of the National Health Service takes precedence over every other policy). The ideological framework, within which policy is partly shaped, has shifted in a direction that makes the demand for at least a partial payment of fees by the student more acceptable. Moreover, it is important to point out that the shift to funding teaching through student fees gives universities more control over their own development. The universities are now functioning in the context of a state-regulated market (Palfreyman and Tapper, 2014), for we have moved away from a centrally planned system of higher education in which development was highly dependent upon the funding bodies – first the University Grants Committee and subsequently the funding councils.

The Labour Party's decision to commit itself to lowering the tuition fees ceiling from £9,000 to £6,000 per annum may be interpreted as simply an unsuccessful electoral manoeuvre to enhance its prospects of securing more parliamentary seats. However, it has also added new dimensions to the argument: firstly, that policy analysis does not inevitably have to be based on the premise that tuition fees will automatically increase; secondly, that there is still a debate to be had about the political relevance of higher education issues; and thirdly, that the future direction of tuition fees policy still remains contentious.

### **The policy alternatives**

In analysing these alternatives we have been guided by the principles implicit in the previous section of this article that the universities should control their own fee levels, which rules out the lowering of the maximum fee from £9,000 to £6,000 per annum, and that a graduate tax should replace income-contingent loans. Either of these moves would leave the funding

of higher education to the vagaries of public expenditure and vulnerable to the shortfalls in funding that occurred in the 1970s and 1980s. Such moves could also give the state potential control over the admissions process, perhaps even impacting upon the academic profile of the university by choosing to fund only those students who select to study certain academic options, as was suggested by both Plaid Cymru and UKIP in their 2015 election manifestos. There are also possible academic ramifications in replacing income-contingent loans with a graduate tax, although the costs (and assumed benefits) are mainly political and have to be borne by the government that enacts the pertinent legislation. Already we have an increase in applications to overseas universities in response to the imposition of high fees and this could be intensified if those who have graduated from an English university have to pay a graduate tax throughout their working lives to finance future tuition fees. Also as an earmarked tax this would run into strong opposition from the Treasury, which has always opposed such hypothecated taxation. When variable tuition fees were first introduced there was considerable support (led in particular by the LSE economist Nicholas Barr – see Barr and Crawford, 2005: 101–19) for the idea that they should be underwritten by a government-financed scheme of income-contingent loans, which was strongly favoured over proposals for a graduate tax: so why should an incoming government go over the same territory again?

If there is no possibility that in the age of costly mass higher education we are ever likely to see a return to the full and continuous public funding of higher education tuition fees (as occurred when only around 15 per cent of the 18–21 cohort were in higher education), and given that financing through a graduate tax is likely to embroil any government in a protracted period of political turmoil while threatening universities with a loss of control over how they conduct their affairs, then the only reform package that seems to make sense is to change the prevailing model of income-contingent loans. The overall purpose of the reform would be: (1) to enable universities to exercise maximum control over their tuition fees policy; (2) to control the burden that the scheme imposes upon public expenditure; and (3) to provide students with more choice in the selection of their degree programmes and greater protection from lax university standards once they have commenced a course. At the moment the one real constraint on the level of fees that higher education institutions can impose for UK/EU undergraduates is the ceiling of £9,000 per annum. As recommended by the Browne Review this should be removed, and universities empowered to set their own fee levels. This would undoubtedly result in a wider variation of fee levels, and help to keep higher education out of the political limelight by making fee increases an institutional rather than a government responsibility. The financial obligations incurred by the state through the current income-contingent loans scheme could be mitigated in two different ways. Firstly, by tightening up the conditions of repayment: setting repayment at a steeper rate, with positive incentives offered for early repayment, and repayment extended over a longer period of time if necessary. Secondly, the Student Loans Company could limit the amount that could be borrowed by each student, perhaps to £6,000 per annum. The hope would be that such a move, combined with placing responsibility for fee increases upon the universities, would persuade universities to moderate their fee levels. The universities themselves could be responsible for finding the necessary resources to bridge the funding gap (between £6,000 and the fee). This would entail the universities making deals with financial institutions, which should prove to be relatively straightforward for universities that could demonstrate that their students invariably graduated and found financially rewarding jobs. Where this was not possible, perhaps the university should consider whether it should offer such a course, or whether it should lower its fee level. Universities should also be required to provide more information on how they determine their fee levels and should be more open to providing redress to students when

they feel they have not been given the standard of education that they felt they were purchasing. Universities should also be required to demonstrate their academic credibility and not simply assert their control of the curriculum as their defence. The change strategy is to increase both the power of the state and the power of the student market – to create a state-regulated market that is increasingly attuned to providing high-quality higher education in the context of a university system that is increasingly differentiated internally with respect to the goals it pursues. What is required is a competitive market, and to help establish that market the state not only needs to regulate the way in which higher education providers make their services available, but also must ensure that there is a steady increase in the number of universities offering high-quality degree programmes, with regulation ensured by a combination of inspections by the Quality Assurance Agency (QAA) and the publicizing of the findings of the National Student Surveys (NSS), along with the creation of a new regulator – an Office for Higher Education or Office for Tertiary Education. And, as the state retreats from directly financing a student's higher education, it has to take on a greater burden of ensuring consumer protection for the student-customer paying high fees.

So action is pursued on three fronts: (1) to introduce technical changes to the current student loans scheme that will lessen its dependence upon the public purse (even possibly making the universities assume the responsibility for raising financial support for at least part of the costs of tuition fees); (2) to require the universities to assume greater responsibility for the academic quality of the programmes they offer; and (3) to permit, through a regulated process of access, more institutional providers to enter the market in order to increase institutional competition and student choice. Although we are not going to return to a system of higher education in which student access is overwhelmingly publicly financed, we can construct a model in which there is a more equitable sharing of the costs of tuition and in which students can be better assured that they receive quality higher education (while the universities retain more control over their own affairs).

### **Post-2015 general election prognosis**

Following the election of the Conservative Government at the 2015 general election, various developments can be foreseen. The ceiling on fees may be removed and the higher education institutions left to set their own fee levels, including potentially raising them above the current ceiling of £9,000 per annum. There will be a tightening of the terms of loan repayments – a higher rate of repayment and an extension of the length of time during which repayment can be claimed, combined with discounts for those who pay early. There will be no early move towards curtailing the amount that the state is prepared to offer to support the payment of tuition fees, but this will be set down as a medium-term policy objective, and universities will have to start preparations for raising funding to enable their students to pay their tuition fees. The institutions will offer more bursaries and fee reductions to students, which may be directed specifically at students opting to study particular (perhaps undersubscribed) courses or who are deemed to be potential high-flyers. Over time more providers will enter the higher education market, and in this respect note the growth of massive open online courses (MOOCs), which may offer productivity gains at lower cost to the student. Such providers may not be universities as such, but institutions offering professional and/or trade courses, while some existing universities will be increasingly devoted to the pursuit of research and will become more like specialized research institutes than universities. There will be the creation of a student loans scheme for



graduates to address the decline in state funding on this front. England will move steadily towards a mass, highly differentiated model of higher education, of which the university as we have known it will be a declining part.

Accompanying these policy changes, there should also be a significant shift in the direction of academic debate. The focus on state funding and/or marketization should draw to a graceful close. It should be followed by a phase in which there is thorough examination of how institutions adjust to securing funding in a world where there is a parsimonious state and demanding market conditions. How do higher education institutions respond to this context? How do managers behave? Can costs be controlled, or even reduced, allowing greater price competition? How is the role of the academic affected? How much institutional and system cohesion is likely to prevail? What does this mean for the traditional role of the university, supposedly dedicated to enhancing scholarship and expanding research while increasingly structured to provide differential forms of professional and technical training?

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