CHAPTER 20

Sustaining World-Class Universities: Who Pays and How?

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INTRODUCTION

Higher education is now unarguably a global activity. In a digitally connected world, where capital and labour flow increasingly freely without hindrance from national boundaries, universities are no less subject to the forces of globalization than any other part of service sector economy. Universities from all over the world now have truly global reach, are engaged in international competition and collaboration, source talent worldwide, contribute to global grand challenges, and are increasingly asked to serve as a cog in the gearbox between international, national and regional economies. Our performance is measured against institutions from across the globe with league tables and a host of other metrics.

In this contribution I will sketch out what I describe as the macro challenge of higher education funding — the relationship between the growth — or massification — of HE, in pursuit of civic and economic benefit, the quality of work the sector can offer, and how the financial burden is shared between public and private purses. I will then use the recent debate in England as to how universities should be funded as a useful prism through which this question might be considered, looking at the impacts and costs, both financial and other, that the solution arrived at will impose on the key trio of stakeholders in HE: the universities themselves, the students, and government and the wider civic society.

Before I begin in earnest though, some caveats.

Throughout, I deliberately I use the term university as convenient shorthand for the type of organization that delivers higher education. This is not to deny the role that other providers play in HE in delivering high quality tertiary education (most notably in the U.K., the contribution made by Further Education Colleges in this field), but simply to reflect what I think most of us mean by the type of institution that has the kind of global perspective I have just outlined, and judges its performance in the way I have described.

Also, for reasons of time and space, this contribution focuses very heavily on the sustainability of undergraduate learning and teaching. Again, this is not to deny the importance of other activities — indeed many of us would point to the role of research, to give an obvious example, in making our universities world class — and it is interesting to note many of the points I will make about funding for teaching may be extrapolated to cover other areas as well.

THE MACRO CHALLENGE

Despite the impact globalization is having on universities, they have, traditionally, been very much creatures of the nation state. This is most obviously true in Europe, but also in many other countries, notwithstanding the presence in some cases of a significant private university sector. Indeed, some universities were created almost as symbols of national pride and prestige. Moreover, as the 20th century progressed, they were also seen as extensions of the welfare state: the provision of higher education was, haltingly, seen as part of a more generalized welfare state provision for the education of its citizens.

Universities were traditionally rather elite institutions educating only a very small minority of their national populations. But, as we know, in the latter half of the 20th century this began to change, first in the U.S. and then elsewhere where the opportunity to engage in higher education was extended to a much larger proportion of the population. This has often been referred to as the transition from an elite to a mass system of higher education. In so far as how higher education was publically provided, this, of course, placed ever increasing claims upon the public purse. As the need for these resources grew, so governments began to examine rather more forensically the purposes of this investment. If one adds into this the growing recognition over the last 20 years that higher education is an important component of global economic competitiveness, then one produces a situation of quite immense change in the balance of the relationship between universities and the state.

This can perhaps best be summarized by stating that it was once the role of governments to provide for the purposes of universities, but it is now the role of universities to provide for the purposes of government. And this has been a quite pronounced shift which has taken place in the lifetime of most of today's academics. As the resourcing has gone up, so governments have asked more and more stridently, what are universities for? And the answer has been rather depressingly utilitarian: the purposes of universities have not been seen to be intrinsic — that is the cultivation of the student mind or the pursuit of higher learning for its own sake — but rather ulterior — the contribution to economic competitiveness, social inclusion and other non-educational goals. And slowly, as the knowledge economy argument has taken hold, so governments have come to view universities as being far too important to the pursuit of these policy goals to be left to their own devices. Governments, in other words, increasingly regard universities as delivery agencies for public policy goals.

To give my own institution as an example, when the University of Liverpool was granted its charter in 1881, it relied almost exclusively on donations from local funders who were less concerned about the higher level skills agenda, as we would call it today, than "the ennoblement of life and the advancement of learning". But, as universities became dominated by public funding, so their mission was defined in terms, increasingly, of a public policy agenda: driving economic regeneration and growth, upholding national cultures, and inculcating civilizing influences in their predominantly young student body. As far as the formal relationship between universities and the state was concerned, this manifested itself, as the 20th century progressed, in an increasing tension all over Europe between state control on the one hand and institutional autonomy on the other. We move rapidly from "the ennoblement of life and the advancement of learning" to the world of "something for something".

Yet embedded in this was a genuine paradox. Governments came to recognize the importance of higher education in the pursuit of public policy goals, and in so far as universities were public institutions, governments were called upon increasingly to provide the resources commensurate with the needs of these universities to undertake research, engage in knowledge exchange, and teach their students. And then, as the 20th century drew to a close, the forces of globalization compounded these dilemmas.

Thus governments all over the world have sought to expand their higher education systems as they recognized the need to raise the skills levels of their populations — all governments want to engage in what these days we call "massification". However, they also wish to enhance the quality of the higher education that is provided so that this massification can take place without compromising standards. And, as if this were not enough, governments all over the world wish to achieve both of these things while also, wherever possible, reducing the burden on the taxpayer.

These three factors produce a kind of force field in higher education policy which is common to most countries, even though the particular ways in which this manifests itself in practice varies according to the precise political context. For example, in some countries there has not been the level of expansion of higher education which one might otherwise have expected if it was solely based upon the needs of the population. The U.K., indeed, might be considered such a case. In other countries quality was allowed to slip, whatever public rhetoric may otherwise suggest, and this was certainly the case in some continental European countries where the quality of undergraduate higher education has undoubtedly declined over the last 30 or 40 years. And in some other countries there has been a concerted drive to reduce the fiscal burden of higher education by actively seeking a mixture of private and public finance, either in the form of increasing student fees or allowing private — whether for-profit or not for-profit — universities to establish themselves. Indeed the most common feature worldwide has been the response of the enormous social and economic demand for higher education to be met by the private sector rather than the public sector.

In this respect the United States is unusual in that many of its elite universities are private. In most other countries in the world where private higher education is common, the private sector has been created in order to take up the excess demand which cannot possibly be accommodated in the elite public universities. But whatever the particular character of private universities, most of the higher education expansion worldwide lies in this part of the sector and one only has to look at Asia, Latin America and most of central and eastern Europe to observe this.

THE ENGLISH FUNDING REGIME: THE BROWNE REVIEW AND SUBSEQUENT

Without wishing to focus exclusively on the British, and more specifically, the English experience, I know that many of you will be interested in the recent radical changes to the student finance regime there and the effects it is likely to have on the sector. As well as instructive in demonstrating the importance of communicating change effectively, they highlight through practical example a number of the issues I have raised.

Tuition fees were introduced in 1998 in response to the Dearing report's identification of a looming shortfall of funding for HE in the U.K., and since then funding for British and other E.U. undergraduates has operated on a mixed economy basis. Students pay a heavily subsidized fee (currently around £3,300) with, in many cases — depending on the subject studied — a much higher contribution to their education funded by the state, allocated to universities through the Higher Education Funding Council for England. Fees for non-E.U. students are unregulated. Through this funding model, government also controls the numbers of students entering HE, and indeed over the last couple of years has introduced significant disincentives to over-recruitment.

Students can access a variety of financial support packages to ensure they meet their financial obligations while at university, ranging from scholarships and bursary schemes run by the universities themselves, to government-backed loans and grants, the latter being dependent on household income.

However, as you will be aware, things change. We are now at a tipping point in England, where funding for teaching is shifting irrevocably from a system predominantly supported by the general taxpayer, to one where it is the direct beneficiaries — the students themselves — who will foot the lion's share of the bill.

In November 2009 it was announced that the former Chief Executive of BP, Lord Browne of Maddingley, would lead an Independent Review of Higher Education Funding and Student Finance. The review made good a promise — made in 2004 as part of the attempt to persuade Labour rebels to support the lifting of the fee cap to £3,000 — to review how much students should be charged for attending university.

In announcing the review, Lord Mandelson said that it would consider "the balance of contributions to universities by taxpayers, students, graduates and employers" to university finances. In short the focus of the review would be on who paid for higher education. It is interesting to note that at the time there was little or no appetite on the part of any of the major political parties for a broader discussion around changes to the role of HE. So, while Browne could address one element of the macro challenge I sketched out earlier — the fiscal burden generated by HE — it would not debate the other two corners of the force field — massification and quality. In fact both were taken as a given and the need to make them sustainable was implicitly offered as reasons for the review.

Securing a Sustainable Future for Higher Education, the title given to the final report of the Browne Review, was published in October 2010. In summarizing the panel's findings, Lord Browne highlighted a number of points, including:

- the continued massification of the sector in the U.K., noting that now 45% of people between the ages of 18 and 30 entered HE compared to 39% a decade previously;
- the need to maintain and improve the quality of provision, largely through the mechanism of student choice and resultant competition, including deregulation of student numbers;
- and that — and this is probably worth quoting in full as it gets to the heart of the force field I described earlier — "a degree is of benefit to both the holder, through higher levels of social contribution and higher lifetime earnings, and to the nation, through higher economic growth rates and the improved health of society", and that "getting the balance of funding appropriate to reflect these benefits is essential if funding is to be sustainable."

Of course, it was this last item that, understandably, drew the attention of the public, the media and politicians, and led to one of the more trenchant debates on higher education policy in recent years.

So, what did Browne recommend? Most eye-catchingly that the cap on fees be lifted entirely, supported by improved information for applicants, thus, when combined with deregulation of student numbers, allowing market forces to be used to improve the quality of provision. This shifting of the financial burden from state to student would occur post graduation, and only apply to those who could afford it, based on their earnings. He went on to recommend that universities needed to be aware of their social responsibilities, and, far from seeing the lifting of the cap as a licence to print money, ensure that measures were put in place, not just to avoid less well off applicants from being put off from coming to university, but to actively encourage them to do so, and to support them in making the most of their time there.

Government would continue to play a key role in the financing of HE by paying upfront for student support in the form of loans and maintenance grants, although this would in effect be funded by a tapered levy payable by universities on all fees above £6,000. Student loans would only become repayable after the graduate passed a defined income threshold, and would be written off after 30 years.

While undoubtedly it was the fees and funding elements of Browne that captured the public's imagination, it is probably worth noting here, that in amongst the more detailed recommendations perhaps the most radical suggestion of them all gained little publicity. The deregulation of student numbers would, combined with the removal of the fee cap, have led to the genuine marketization of undergraduate provision in England, albeit one backed by the government acting as the customer's banker through its provision of loans to those that needed them.

So, what happened next? In Harold McMillan's phrase, "Events, dear boy, events."

As you will know, six months before the publication of the Browne Report, Britain went to the polls. With no single party able to claim a majority, for the first time since the National Government of the Second World War a coalition between two of the three major political parties was required in order to form a government. Of course, intrinsic to the success of any coalition is the ability to compromise, and the publication of Browne and the debate over the funding of higher education that ensued are a lesson in how that process of compromise can shape policy.

Other than relatively bland statements about growth and widening access, the Conservative manifesto had, perhaps wisely, stopped short of promising anything other than "careful consideration" of Browne. The Liberal Democrats, meanwhile, had promised to scrap tuition fees. However, with the coalition's commitment to cutting the national deficit the key theme behind much of its decision-making, a position was agreed whereby:

- The HE budget would be slashed, with a 40% reduction in state funding for teaching, a figure that grows to roughly 80% once the government's frontloading of student support arrangements is stripped out of the equation.
- Continued support for STEM subjects, with the implication that the cuts in funding will be drawn from classroom based subjects.
- A fee cap of £9,000.
- Any institution wishing to charge above £6,000 would be subject to an Access Agreement and have to contribute an element of its additional fee income to widening access measures specific to the University (for example, bursaries or outreach work) and to a National Scholarship Scheme.
- Fees would be paid up front on behalf of students, with graduates repaying these loans at a progressive rate once their income exceeds £21,000. Maintenance grants would be given to those from lower income households, while maintenance loans would also be available.

So, what are the implications for this system of student finance? In examining this, I will focus in turn on the universities themselves, the students and the government and wider civic society.

UNIVERSITIES

As you would expect, I and my colleagues in England have spent a considerable amount of time over the last six months grappling with what the implications of the new student finance regime will be for universities. These seem to fall into three clear groupings: the financial impact, the fundamental redrawing of the relationship between a university and its students, and, by extension, the impacts of increasing marketization.

If one were being particularly provocative, it could be argued that in one sense, the financial impacts on universities of the new funding arrangements are negligible. After all, a reduction in funding from one source (the government) has been accompanied by an increase in available funding from another (tuition fees). However, that would be to seriously misread the situation.

As you will know, the vast majority of universities in England have now stated that they expect to charge the maximum fee of £9,000 a year. The reasons for this are clear. Rough calculations show that for any university offering a mix of science and classroom based subjects, more than £8,000 of that fee is required just to make up for the lost state funding for teaching. When the need to improve widening access activity is taken into account, along with reductions in capital funding, the £9,000 universities can charge suddenly does not sound very much.

Moreover, given changes in student expectation that the new system encourages, universities will be under increasing pressure to invest additional funds in this area, through improved student accommodation, better teaching facilities or any other of the range of factors that contribute to a student's overall satisfaction with their time at university. Thus, by changing the funding mechanism in this way, universities are encouraged to spend more in order to compete, making the sustainability equation a harder one to resolve.

What is absolutely clear is that the new arrangements fundamentally redraw the relationship between a university and its students. While already on an unsound footing, the argument for higher education as some sort of paternalistic movement, dealing out what's best for students — and by extension society — regardless of their views on the matter, has now been thoroughly decommissioned. Students, already in some senses viewing themselves as being in the position of buying a good when they come to university, will vote with their feet. If universities do not provide what they want, they will not go.

I think what is particularly interesting here is the slightly awkward way in which the market looks like it will develop as things stand. By maintaining regulatory control over the number of students in the system, an element of protection is offered to institutions. As long as demand continues to outstrip the number of places, competition and marketization will actually occur in the opposite way to that which the government intends — the applicant will be the supplier, offering their talent to selecting universities rather than vice versa. Given the funding constraints described above, there will not be the scope to impact on the market in the traditional way — by altering prices to stimulate demand.

However, it would be a mistake to assume a more marketized world is not far off. We are already seeing an HE landscape in which private providers, and indeed conceivably overseas providers, are beginning to be encouraged to test the waters, and offer "off quota" places, which may well begin to relieve the pressure in the system here. It is not unreasonable to assume that much of this provision will be focussed at the cheaper end of the market, by organizations that do not have expensive estates or research infrastructures to maintain. Slowly but surely we will see different groupings of potential students making a variety of trade offs in their mind between the cost, type and quality of education they will receive. It will be interesting to see whether the sector responds to this through an increasingly obvious hierarchy of institutions or a more diverse, niche market led approach.

STUDENTS

But how — other than through the gradual development of increased choice — will the students be impacted on? To state the obvious, the answer is in the pocket. There is no getting away from the fact that the fiscal burden generated by HE will be placed more squarely on graduates' shoulders than ever before.

In amongst the myriad complexities of the psychology of tuition fees, how they are set, and how what terminology we use for their repayment, an interesting, yet frustratingly unprovable point emerges.

By setting a maximum fee level of £9,000, what the government have done is set a guide price for the sector. Quite apart from the (very sound) financial reasons for universities wishing to charge the maximum, we can now add the fact that should you not, you are tacitly admitting that the student experience and outcomes offered by your institution are not of the highest quality. Because of this, I would argue that more students will pay a fee of £9,000, or close to it, than would have been the case had the government simply elected to remove the cap altogether and forced universities to truly analyse their position in the sector.

What is more provable is that setting the fee at the £9,000 has prevented universities from generating the level of additional fee income needed to operate a truly needs blind admissions process. At these fee levels universities need some element of fee from all of their students to survive. We could argue then that, paradoxically, the government's policy of capping fees in an attempt to widen access and promote social mobility has had the reverse effect.

There is also one other area where the impact of the funding changes will be felt by students. Although we will have to see, it seems entirely likely that the increase in fees for undergraduates, and particularly the way this is perceived as debt, will suppress demand for Masters provision, and potentially Doctoral study too. If you graduate owing in excess of £30,000 you have to be pretty sure that further study is what you want to do to defer your earning power for another year — or possibly four or five — while, in all likelihood generating further debts in order to support yourself. Will we see a situation where postgraduate study adapts to become a vocational matter — either in terms of direct entry into a profession (Law, Teaching and so on), or as a grounding for an academic career — with associated student finance packages for each?

GOVERNMENT AND THE CIVIC SOCIETY

And how will government and the wider civic society be impacted by the new funding arrangements?

In one sense, it is difficult to analyse how the U.K. government will pay for Britain's contribution to a world class higher education system, as we are currently operating in somewhat of a policy vacuum. Given the pressure to reduce the national debt, details of the revised student finance package have been agreed prior to the development of a white paper on higher education policy.

However, one impact looks — on the face of it — reasonably clear. By removing roughly 80% of the Teaching Grant, it would appear there is a significant financial saving. However, once the pump priming of the new student finance system is put into place, this reduces to 40%. These are only initial figures, though. The government's calculations have been based on the need to underwrite the costs associated with universities charging an average fee of £7,500. As what I have already said implies, this looks to be a misguided assumption.

Options are currently being discussed as to how this can be dealt with, ranging from reducing the unit of resource attributable to each student, or simply reducing the number of fundable students, and inviting universities to bid for the remainder, at least partly on a cost basis.

Social mobility is one policy goal that it appears clear those on all sides of the political divide wish to encourage, and of course, universities play their role in that. I have already alluded to how setting the fee at £9,000 might impact on that from the individual student's perspective, but I think it bears noting that not only students who come from a low income household and go on to become doctors or lawyers benefits from this. In the right numbers, all of society benefits, and we must be careful not to lose sight of this. Any dampening of social mobility caused by setting the fee at this level should not be forgotten.

Another by-product of the approach to funding proposed in England is the increasingly utilitarian attitude towards higher education it represents. In addressing a number of financial issues, the government are, of course, looking for value for money. They make this explicit by saying that, despite the major cuts in public spending, funding for the STEM and other strategically important but vulnerable subjects will be maintained. Without wishing to get into a debate about which has the most worth, a degree in Medicine, or a degree in underwater basket weaving, it does present issues to those who see diversity as one of HE's strengths, and who hold the academic pursuit as valuable in its own right.

And finally, although my focus here has been on how government aims and objectives will be impacted by changes in how HE is funded, I should also note that industry too, can expect to feel their effects. There is a logical progression from asking graduates — as primary beneficiaries — to pay for their education, to asking industry to pay an element of the cost in return for having a steady stream of ready to work graduates injected into the economy on an annual basis.

By and large, industry has remained quiet on the issue, but there are at least three obvious ways in which, encouraged by the need to incentivize the most able students to come and work for them, they might contribute. The more traditional method would be for a company to identify the more able students and offer to part fund their study in return for an agreed period of employment with them. Secondly, we might see a greater onus on industry to work with HE in curriculum design and even to contribute to some elements of provision, again in the interests of ensuring that their needs as future employers are met. And thirdly, it is highly likely that industry will increasingly cut out the middle man and, in a twist on the privatization of HE, begin to offer their own range of degrees. In the U.K., for instance, just before Christmas 2010, McDonalds announced plans to run its own foundation degree in business management for its employees. The idea of companies having their own degree awarding powers will, I think, become increasingly common.

CONCLUDING THOUGHTS

In drawing this contribution to a close, I would like to bring to your attention three key areas that, in light of changes to the funding scheme in England, and in particular a greater private contribution, will require careful thought. Recognizing that HE is both a public and private good, they strike me as areas in which effort, dialogue and goodwill will be essential in order to ensure the right balance is struck.

Firstly, in a world where students will, for better or for worse act like customers, and universities will seek greater private contributions, universities must be careful not to become slaves to the market and endlessly reconfigure what they offer simply to meet perceived demand. They must work hard to retain their unique characteristics and place they have in society. We need to think about how should we actively engage in the debate about the purpose of higher education, and convince people of our position.

Secondly, we cannot afford to think that issues of widening access and social mobility can be dealt with formulaically through the student finance package alone. Universities need to do more in terms of outreach activity, aspiration raising and so on, but it is also clear that this is not just an HE issue. More needs to be done through schools, support networks and other areas of social policy to ensure that no one is excluded from the merit based society that we all say we want. How can the linkages required through all aspects of social policy be found and resourced.

And finally, we all need to be aware that we cannot have it all. In a world of scarce resources there is an interesting question to be answered in relation to institutional autonomy and the government's regulatory position in light of the new funding settlement and where it seems to be leading us. Is it inconsistent for a sector to be pushed towards privatization in terms of its funding, but for government to retain its grip on sector policy and regulation in the way that it currently shows no sign of giving up?