Implications of the United Kingdom's Market-Based Reforms

Roger Brown*

Abstract. The United Kingdom Coalition Government has introduced a series of market-based reforms to the English higher education system. These come on top of a number of similar policies going back to the early 1980s. Together, these take English higher education closer to an economic market than any other major public system. Taking the period as a whole, these changes have increased efficiency and service responsiveness without damaging overall participation. However they have reduced institutional diversity and innovation and, almost certainly, social mobility. Finally, the latest reforms threaten the balance between public and private goods, costs and benefits that many see as an essential feature of a modern higher education system.

Keywords: marketization, privatization, higher education system

Introduction

An earlier article in *Higher Education Forum* (Brown & Carasso, 2012) described how the United Kingdom – and especially English – higher education had been progressively 'marketized' between 1980 and 2012. This article draws on more recent scholarship and analysis to offer some thoughts about the messages to be taken from this process. It begins by recalling the main features of marketization.

Market and non-market systems

Table 1 below distinguishes 'market' from 'non-market' (Wolf, 1993) systems of higher education provision.

* Former Professor of Higher Education Policy, Liverpool Hope University, The United Kingdom, e-mail: rogerbrown4@gmail.com

Table 1. Market and non-market models of higher education systems

	MARKET		NON-MARKET
1.	Institutional status Institutions self-governing, independent entities with a high degree of autonomy to determine prices, programs, awards, student numbers, admissions, staff terms and conditions *etc*.	1.	Institutional status Institutions either not independent entities or independent but with little ability to determine prices, *etc*.
2.	Competition Market entry and exit. Low barriers to entry. Lots of competing suppliers. Significant private and/or 'for profit' providers offering serious competition to public institutions. Wide student choice. Funding linked to enrollments. Some degree of product/price innovation.	2.	Competition High barriers to entry. Little market exit. Few suppliers or little competition. Few or no private or 'for profit' providers. Little student choice. Funding not linked to student numbers. Little product/process innovation.
3.	Price Competition on price of tuition. Fees cover all or a significant proportion of costs and may vary between subjects as well as modes of attendance. Students meet costs of tuition from own or family resources ('cost sharing'). As a result of competition plus price liberalization, considerable variations in price for comparable programs that cannot be explained by local cost factors.	3.	Price Teaching funded mainly through grants to institutions. No or purely nominal tuition fees. Because of subsidies and/or cross-subsidies, fees bear little or no relation to costs. Fees do not vary between subjects or even modes of attendance. Tuition fees (and sometimes student living costs) heavily subsidized. No cost sharing. Few or no variations in charges for comparable programs.
4.	Information Students make a rational choice based on information about price, quality and availability. Such information plays an important part in their choice of program and supplier.	4.	Information Limited information about price, quality or availability. Information plays little or no part in student choice of program and supplier.
5.	Regulation The state facilitates competition while providing basic consumer protection. Important role in information provision or brokerage (unless left to commercial agents), and dealing with consumer complaints.	5.	Regulation Protects standards and constrains competition that may threaten standards.
6.	Quality Ultimately determined by what the market will pay for, which often comes down to what students, employers and the media value (high student entry scores, high post-graduation earnings, *etc*.). Subsidiary roles for state and academy.	6.	Quality Usually determined through a combination of state and academic self-regulation, with the state laying down broad frameworks and the key decisions about applying those frameworks being taken by the academic community.

(Brown, Ed., 2011)

It should be emphasized that these are very much ideal types, and that there does not appear to be any system anywhere that conforms wholly to either model. Nevertheless United Kingdom higher education – and especially England – now has many of the features of a market:

- All United Kingdom higher education institutions (HEIs) are private bodies with considerable legal, financial, and operational autonomy;
- There is a wide range of competing suppliers, some of which are operating to make a profit for their proprietors or owners;
- Funding is linked to enrollments, a significant proportion of which are not limited by public expenditure constraints;
- There is competition on tuition and student aid;
- The tuition fee represents all or a significant part of the cost of teaching: direct subsidies to institutions are limited;

- A considerable share of the cost of provision is borne by students and their families, either directly (upfront fees) or subsequently (repayment of state subsidized, income contingent loans). A considerable share of maintenance costs is also borne privately;
- There is a considerable amount of information for students about the institutions, subjects and programs available;
- Regulation is increasingly geared toward advancing the actual or presumed needs of students rather than protecting the interests of the institutions or the academic community.

The earlier article summarized the marketization process that began in October 1979 with the decision of the Thatcher Government to abolish the subsidy which overseas students attending British universities had previously enjoyed, and which has culminated for the moment with the policy of the current Government to abolish most direct institutional subsidies for teaching and to replace them with a tuition fee that is intended to cover the cost of teaching most subjects. This marketization has in fact three main themes which are described and analyzed more recently in a book co-authored with Helen Carasso (Brown with Carasso, 2013):

- The separation of the funding of research from the funding of teaching, and the allocation of research funds on an increasingly selective basis, from 1986;
- The sharing between the state and the private individual of the costs of maintenance (from 1990) and tuition (from 1998);
- The expansion in the number of providers, and the reduction or removal of formal limits on institutional development, from 1992.

What has been the impact of this combination of selective research funding, cost sharing, and provider liberalization? What lessons are there for other systems that may be going down the market path?

The impact of marketization

There do not appear to be any universally agreed criteria for assessing the effectiveness of different higher education systems. We propose to assess the impact and the lessons learned from the marketization of United Kingdom higher education against four main sets of criteria:

- Participation, equity and social mobility
- Efficiency
- Diversity and innovation
- Quality

We also look at the balance between public and private goods, benefits and costs.

Participation, equity and social mobility

Whatever else may be said, marketization does not appear to have damaged participation, at least in overall terms. The higher education initial participation rate for England-domiciled students in English, Welsh and Scottish institutions has increased steadily so that by 2011/12 it has reached 49.3 percent, compared to 12.4 percent in 1979/80. This has put the United Kingdom near the top of the international league. But there are a number of caveats.

First, we do not know the full effect of the latest fee increase: enrollments for 2012/13 will not be known for certain until early next year (2014). Applications from England-domiciled students to English HEIs in 2012 for full-time undergraduate courses were considerably down. While there has been a recovery this year, applications are still running below the 2011 figure, though the fee increase may be only part of the story (UniversitiesUK, 2013). There has been a significant recent (post-2010) fall – 40 percent – in part-time student numbers, at least some of which must be due to price (fee) increases.

Second, there is concern about the impact of increased full- (and part-) time undergraduate fees and the associated higher levels of debt on the propensity of home and European Union graduates to enter postgraduate courses. Since 1999, increases in United Kingdom- and European Union-domiciled entrants to postgraduate courses (18 percent) have been well behind those from other countries (200 percent). This has now reached the point where many courses and departments, especially in technology and science, are effectively dependent on overseas recruitment for survival. It should be noted that postgraduate taught and especially postgraduate research students are already heavily concentrated in certain institutions (UniversitiesUK, 2013). Since many sectors of the economy, and not just higher education, now require skills at masters level and above, this could have serious longer term implications for the United Kingdom's economic competitiveness.

Third, in spite of some recent relative improvements, there remain significant differentials in participation between students from different social groups and areas. While the main reasons lie far back in the educational and social system, very few people believe that the current reforms will help. In particular, there is near universal agreement that the enhanced institutional stratification that is the most likely outcome of the reforms is in itself a huge barrier to widening participation and social mobility.

Efficiency

There can be very little argument that marketization has increased the efficiency with which resources are used in United Kingdom HEIs. While between 1979 and 2011 the overall student population increased by 320 percent, overall public expenditure on higher education rose by 165 percent. Over the same period, student-staff ratios rose from an average of 10.3 (full-time equivalent students to full-time staff) to an average of 17.1 since the mid-1990s (Brown with Carasso, 2013). In spite of the dramatic reduction in expenditure per student, graduation rates have remained respectable. Research performance has been even more remarkable. According to a recent Universitas21 study (Williams, de Rassenfosse, Jensen & Marginson, 2012), only the United States has a better performance in terms of outputs: articles published, other metrics of research excellence, participation rates, the number of researchers per head of population, and graduate employment rates. Yet the United Kingdom was 27th when it came to the resources invested. There are two qualifications to this generally positive picture.

First, international surveys suggest that as market competition increases, a higher and higher proportion of institutional resources is used for activities that are designed to improve market position but which may have little or no benefit for teaching or research: student residences, cafeteria and recreational facilities, what one United States commentator described as ‘gilding their palaces of exclusivity’ (Carey, 2011, quoted in Brown with Carasso, 2013, p.154). There are also the ‘transactions costs’ as institutions devote resources and effort into bidding and gaming, where doing well in a particular competition or exercise becomes an end in itself, the shortly to be conducted Research Excellence Framework being a particular case in point. Finally, more effort is put into marketing, branding, student enrollment, and associated activities (Matthews, 2012).

Second, there is an argument that market competition, by increasing the resourcing and reputational differences between institutions without compensating benefits in quality, works against rather than for the best use of resources. Current United Kingdom government policies favoring the more prestigious institutions (the deregulation of places for highly qualified students on top of enhanced research concentration) will certainly have this effect. Crudely, the choice may be between ‘world-class’ institutions and a ‘world-class’ system (see Brown, 2013, for the full argument).

Diversity and innovation

Market advocates claim that as in other markets, increased competition promotes institutional and program diversity as institutions are forced to focus on what they do best and create or occupy distinctive market positions or niches. Such diversity also facilitates innovation by permitting experimentation because any failure is limited to one institution or group of institutions (Birnbaum, 1983). However it is also well established that higher education exhibits many of the features that can lead organizations to become more alike in structure, culture, and outputs: ‘isomorphism’ (DiMaggio & Powell, 1983). These include poorly understood organizational technologies, ambiguous organizational goals, and an environment that creates symbolic uncertainty. These lead organizations to model themselves on other organizations that are seen as successful. Strong market entry barriers and a mobile professional staff that moves between organizations are reinforcing factors. Various institutional rankings and league tables reinforce this 'competition by emulation' (Rhoades, 2007, and many others).

This has certainly been seen in the United Kingdom, the clearest recent example being institutions' reaction to the introduction of tuition fees. In 1998 not a single institution charged less than the £1,000 top-up fee permitted by the Government. In 2006, only four institutions charged less than the (so-called) variable fee of £3,000 and these quickly came into line when it was apparent that this simply cost them income. In 2012, the Government's explicit assumption was that most institutions would charge £6,000, the average fee would be £7,500, and the full £9,000 fee would be exceptional. However the average fee has turned out to be over £8,100, and most institutions will soon be charging the full £9,000 for all or some of their programs.

This behavior could have been predicted from even a cursory knowledge of existing higher education student education markets. The root of the problem is the difficulty of finding universal measures of educational quality as a basis for choosing between competing producers. Absent such measures, consumers look for other indicators, and in higher education it is institutional prestige or status that generally serves as the substitute. This then reinforces the position of those institutions that are already prestigious, leading to the academic 'arms race' about which so many commentators have written (for the full argument, see Brown, Ed., 2011, Chapter 3). The net result is that instead of functional diversity and some broad parity of esteem between institutions with different characteristics and functions we find a reputational hierarchy with substantial and growing differences in resourcing and status between institutions.

Quality

Given the difficulties of measuring quality described above, any conclusions about the impact of marketization on quality must necessarily remain tentative.

The United Kingdom's strong relative performance in research has already been noted. A number of studies (*e.g*., Adams & Gurney, 2010) show how there was a big increase in quality after the first research selectivity exercise in 1986. However other studies (*e.g*., McNay, 2011a, 2011b) present a less flattering picture. It is certainly true that research quality is uneven across individuals, institutions, and subjects. The position with regard to teaching is even more complicated. Service responsiveness has undoubtedly increased, graduation rates remain high, student satisfaction rates remain very high, and internationally mobile students continue to be attracted to Britain in large numbers. There are continuing strong levels of first employment while the rates of economic return remain positive and high, although both have fallen somewhat in the current recession. United Kingdom graduates continue to be in demand from multinational companies (Council for Industry and Higher Education, 2006).

However over the same period, as we have just seen, the unit of funding fell and student/staff ratios increased by considerable amounts. There have also been a number of indications that even if it hasn't necessarily fallen, educational quality may not be as high as it should be. These include students spending less time studying than they should be (partly because of the need for term-time employment to help pay for their studies), grade inflation (especially at the more prestigious institutions), and increased plagiarism and other forms of cheating. A number of writers (*e.g.*, Naidoo & Jamieson, 2005) have pointed to increased 'commodification' as students are encouraged to see higher education as a tradable product, and there has certainly been an increase in student complaints, albeit from a low base. There have also been a number of cases where competitive pressures have led to management interference with academic judgments (for the full argument, see Brown with Carasso, 2013, Chapter 8). Unfortunately – and for all the effort now put into quality assurance, where the United Kingdom has what is probably the most extensive and elaborate external and internal arrangements of any developed country – we still know very little about what may have happened to educational quality as a result of increased market competition.

Public and private goods, benefits and costs

It is generally accepted that higher education produces a range of public and private goods (*e.g.*, McMahon, 2009; Marginson, 2011). Although they are conceptually distinct, in practice marketization and privatization tend to go together: the most heavily marketized systems are generally those with the highest shares of private funding (Brown, Ed., 2011, Chapter 3). In the United Kingdom, what was originally an almost entirely publicly funded system already had in 2010 one of the highest proportions of private funding (OECD, 2013, Chart B3.2). While it is true that the state continues to subsidize both teaching and research, the longer term 'direction of travel' is clear.

Moreover, in looking at privatization, the issue is not only the source of funds but also the way in which they are distributed to institutions. As shown in the earlier article, the United Kingdom has long had a 'quasi-market' (Le Grand & Bartlett, 1993) system of competition for public research funds. It now has what is in effect a 'voucher' (Friedman, 1962) system for funding teaching, so that what subjects and programs universities and colleges offer, and how they teach them, will increasingly be determined by student choice. This may work against subjects that cannot command a premium in the labor market. Already there are concerns about the future of arts, humanities, and social science courses in many institutions. Universities and colleges – especially the newer, post-1992 universities that are heavily reliant on teaching for their revenues – will increasingly be forced to cut back or drop altogether subjects and programs for which there is limited market support. This happened in physics and chemistry and is now happening in modern languages. Ironically, the effects of a system designed to give greater scope to student preferences may be a more limited range of choices as the number of centers in each subject is reduced. More generally, the more that students – in effect, of course, graduates – are obliged to pay for their private benefits, the more reluctant they will be to contribute to the costs of the public benefits. This phenomenon is not of course confined to higher education.

Conclusion

So what conclusions can be drawn from the United Kingdom's experience of the marketization of higher education since 1980?

The general message is that the introduction or increase in market competition in student education, and quasi-market competition in research, has definite benefits in terms of increased efficiency and service responsiveness. Resources are better used and go further while universities are more responsive to students, employers, governments, and other external stakeholders. All this means that society is getting better value from the considerable amounts of public and private resources now invested in its universities.

But it is also clear that market and quasi-market competition needs to be carefully monitored and controlled, especially for its effects on institutional diversity, quality, and equity. It should only be introduced gradually, with proper evaluation of the full range of direct and indirect impacts before any further increases are contemplated. This in turn points to the desirability of having a regulatory agency for the system which has the information, the independence and the means to see that the benefits of market competition are maximized, and the costs and detriments minimized (Brown, 2006). This is needed especially if higher education is to continue to produce an adequate supply of both private and public goods.

Referring to market competition generally, the distinguished American economist Arthur Okun once wrote "there is a place for the market, but the market must be kept in its place" (Okun, 1975, quoted in Kirp, 2005). United Kingdom experience since 1980 suggests that this is at least equally true of market competition in higher education.

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