



Higher Education Policy Institute

HEPI-HEA House of Commons Breakfast Seminars 2013

This 10th series of HEPI House of Commons Higher Education Breakfast Seminars, organised in partnership with the Higher Education Academy, take place at a time when the impact of the Government's HE policy is starting to take effect and creating unprecedented levels of uncertainty in the sector. With wide-ranging debate - from the impact of higher levels of tuition fees in England and their potential deterrent effect on student demand through to the feasibility of establishing a properly functioning market in HE - the HEPI-HEA breakfast seminars will bring together some of the most senior people with an interest in higher education to provide a most timely opportunity to discuss some of the key issues facing higher education today.

Who is Higher Education for?

Wednesday 20 February 2013 - House of Commons, 08.15-10.15

With students seeing the cost of a university education in England now trebling, the question of who is higher education for - who needs it and who benefits from it - has been brought into sharp focus. Does the increased private contribution reflect a view that the private benefit is greater than the public? To what extent should universities be regarded as existing to meet the needs of society and the economy, and to what extent to meet the private aspirations of students? What about research and their role in extending the frontiers of knowledge? How to balance the sometimes complementary and sometimes competing roles of universities?

Speakers: Professor Sir Robert Burgess, Vice Chancellor, University of Leicester & Chair of the Higher Education Academy; Professor Steven Schwarz, former Vice-Chancellor of Macquarie University and Brunel University

Transcript of speakers' opening comments

Professor Sir Robert Burgess:

Well thanks very much indeed Bahram. When we look at the question of who Higher Education is for, I also think we need to look at several other issues. For example, what is it that we provide for those whom Higher Education is for and, indeed, is there a tension between the provision that we make for different groups? But let's start by looking at some of the benefits of Higher Education.

One of the things that I think we have been looking at over the last decade is how to expand Higher Education and how to expand it so that Higher Education becomes available to all those who are qualified to take up the Higher Education experience and/or who have the potential to benefit from Higher Education. In that sense, there becomes a tension between the individual on the one hand and society on the other, and are those actually mutually supportive or are they such that we find that there is a division between what the individual may want and what society expects and wants from its Higher Education system?

I also think we need to think about the assumption that is made that Higher Education contributes to economic development and contributes to the development and position of the UK in the international market. Those things clearly are looking at ways in which they

can fulfil expectations of society. Fulfilling the expectations of the individual takes us back to the core business of Higher Education – looking at research on the one hand and to what extent is it that the expectation is the discovery of new knowledge but then, in turn, what we do with that knowledge either as Higher Education participants or, indeed, how we work with others beyond the sector.

And then certainly last, but not least, the importance of teaching and how teaching is core to the business, because the teaching and learning enterprise is one of the benefits for students who register with us.

Now, what is the context, both in the UK and worldwide? First of all I think we need to look at the overall economic context and, in turn, the demographic issues and the way in which they influence what it is that is being put on offer, and not only what is on offer but what is then used by individuals and members of the broader society. Policy issues and sustainability seem to me to be long term issues that we need to address when thinking about the purpose of Higher Education and, in turn, thinking about the way in which that influences what we do within institutions. Clearly, student satisfaction is a core issue in terms of what we are providing and, in turn, how we shape the curriculum and how we use technology in relation to that. Is it that MOOCs will actually cause a revolution in the teaching and learning enterprise, or is it that it merely broadens access to Higher Education given the availability of knowledge and learning?

One of the things that I think we need to look at is the student experience and the way in which Higher Education focuses on the student experience, but to question what it involves. Is it merely the academic enterprise that we're focused on or is it much broader than that? And is it that the social functions of Higher Education need to be thought about in conjunction with such areas as economic impact and the way in which a Higher Education institution needs to be multi-faceted in terms of making provision for students on the one hand, for local and national industrial enterprises on the other, and satisfying international markets in order that UK Higher Education positions itself internationally, not only in respect of economic questions, but also in respect of the individuals who we are wanting to attract into our sector?

Clearly, the global economic indicators push us towards thinking about Higher Education as a driver in economic development. We make the statement, but is it a statement that actually goes no further than isolated examples of entrepreneurial activity, and how far is it that we need to broaden out the provision in order to satisfy this question, 'Who is Higher Education for?'

Certainly, the implications of demography for public funding and the extent to which public and private funding now becomes a central issue needs to be taken out and examined in order to say, "Well, what are the drivers on the Higher Education sector, and how far is it that whoever pays calls the tune of the shape and substance of the sector?"

Now, of course, one of the things that we've moved into is the question of whether we are now in a customer-driven market and how far it is that customers actually determine what it is that we provide. Student satisfaction is a key element of the National Student Survey and also of the Post-Graduate Survey run by the Higher Education Academy. In that sense, I think one needs to say, "What is it that students are saying to us and what expectations do students articulate in respect of the Higher Education community?" And we need to be clear on how we deal with that, because when we talk about Higher Education and economic development, we tend to talk about it as if we're dealing with a different group of people, while the graduates of today are going to be the people who we engage with subsequently in talking about economic investment and the way in which that moves forward.

Clearly, a number of new initiatives, the KIS data on the one hand which actually encourages a wider range of students, hopefully, into the sector and encourages students to interrogate what the experience has been and, at the other end of the student experience, a Higher Education Achievement Report drawing not only on students' academic achievements, but also on the skills that they have acquired during the course of their period in Higher Education.

In terms of curriculum issues and expectations of students, is it that students drive curricula or is it that research drives curricula, and the extent to which the Higher Education community then focuses on the way in which those curricula can be delivered in both developing subject areas and creating new branches of knowledge. But also, in turn, how do we begin to expand the development of the discipline? What is the role of discovery in terms of the development of knowledge? And one of the things a number of people have talked to me about this morning is how far the discovery of Richard III in a Leicester car park actually contributes to the development of new knowledge. Also, in what ways is it an example of doing research and the excitement of being involved in leading discoveries? I think, for me, that question has been writ large in recent weeks.

But then there's the question of vocationalism, and do students expect all our courses to have an instrumental orientation? If one looks at what we provide in Higher Education, whenever people recoil at the word 'vocational', I think it's worth reminding ourselves of where Higher Education started out and how Higher Education was clearly a vocational training and a vocational training in terms of Anglican priests, for one example. But then if you fast forward, one of the things that I think we need to think about is to what extent is it that many aspects of Higher Education at under-graduate level are vocational in purpose – medicine, law, engineering – a whole range of disciplines that focus in on vocational areas? In turn, I think one also needs to look at Masters Degree programmes as we've developed them – I would hazard a guess that about 80% of those have a vocational purpose in supporting the professions.

In assessment and work experience we've introduced many new developments in broadening out the experience and the provision for a much wider group of people coming into Higher Education, but we need to make sure that, where we have provided Higher Education for a much broader group, we don't find employers closing off opportunities by saying they will only recruit people with a certain number of A Level points. It is important that we think about the wider issues of employability and also reflect this in our mission statements.

But what do our students want from Higher Education and what do they focus on? Certainly focusing on their academic abilities and skills strengths, but then, in turn, I think we need to provide in Higher Education a much wider record, rather than a single descriptor, signalling what they have achieved over a three year period. So more detailed information on the university career and the skills that students bring forward to employers. It's in that sense that the Higher Education Achievement Report has been designed for students, but clearly with employers in mind and the way in which we can pick out what it is that we're providing in the Higher Education sector.

But then, in turn, we should ask ourselves what it is that employers expect from the Higher Education community, and is Higher Education for employment or is that far too narrow in terms of the way in which we perceive it, and how can we begin to think about employability in a much broader context?

Bringing all that together, it seems to me that we're left with a series of questions and challenges, where sustainability becomes a real issue, and where we need to think about

what investments we need to make, given the kind of expectations that various groups make of the Higher Education community. How do we maintain a world class university system in the UK which is diverse, international and collaborative? Does that mean that new forms of Higher Education provision need to be thought about in this critical period? And how do we meet Government challenges in respect of student numbers and the opportunities that exist for growth, as well as, in some areas, some retrenchment? Is it that there will be a re-drawing of the academic map and re-drawing of the disciplinary boundaries? And then, in turn, how do we keep pace with curriculum and technological development, and is it that the opportunity now is to engage in the broadest aspect of widening access and widening participation that we've ever had an opportunity to do? Because MOOCs will not require anyone to register for anything particularly; it's the access to knowledge and information that counts. How far does that raise for us the prospect of providing Higher Education for a broader group, some of whom may be assessed by us and some who may be interested in Higher Education for the benefit of learning?

I'll pause there. Thank you very much indeed.

Professor Steven Schwartz:

Thanks very much for inviting me here today. It's a pleasure to be here. Bahram told me that the best thing I could do is to be provocative and challenging and get you all angry with me, so I'm going to take at least partial advantage of the Chatham House rules

What I would like you to remember from this talk is the story of the plumber who came to unblock the toilet. The job took ten minutes and, at the end of the ten minutes, the plumber presented the customer with an invoice for £250. The customer was taken aback and he said, "£250 for ten minutes? That's £1500 an hour." He said, "I don't make that, and I'm a brain surgeon." And the plumber said to him, "Well, I didn't make it when I was a brain surgeon either."

Now, I know that this is an exaggeration. Most neurosurgeons make more than plumbers, but many do not. And the gap between the salaries of graduates and the salaries of non-graduates is actually narrowing.

This is not what we have been taught to expect. Conventional wisdom holds that university education increases the earnings of graduates because the knowledge and skills that graduates pick up at university make them more productive and increase their human capital. After all, why would employers pay them more unless they were more productive?

That's the conventional wisdom. Yet, the proportion of graduates who are in professional and managerial positions is actually decreasing. Two years after leaving university 40% of UK graduates are still unable to find a graduate level job. And the graduate premium, which is the difference between what graduates get paid and the average national salary, has shrunk 22% in one decade. Over the last ten years the premium has narrowed by 22% and this is not just happening here in Britain. The same thing is happening in other countries around the world. In the USA, for example, 9.4% of university graduates have no job at all.

Of course, these are average national figures. If you drill down into them, you see some very interesting anomalies. The Warwick University Institute for Employment Research Futuretrack Survey revealed several. Let me tell you about four of these anomalies:

- 1 The Warwick researchers found that non-white graduates are much more likely to be unemployed than white graduates;

- 2 Graduates who are the first in their family to go to university have poorer job prospects, higher unemployment than those who come from families where the parents are graduates;
- 3 The graduates of less prestigious, less selective universities have suffered a 30% fall in average starting salaries in the last ten years, whereas the fall for graduates who have attended elite, highly selective universities is only around half of that – 17.5%; and
- 4 Among those who are lucky enough to find jobs, female graduates are still paid less than male graduates in the same professions.

These four anomalies are not easily reconciled with the conventional wisdom that we've all grown to accept. If education increases human capital, if it's the extra knowledge and skills that graduates pick up at university that make them more valuable employees, then why should irrelevancies like skin colour, sex, parental education and the prestige of a university make any difference? Why should they make any difference if it's all about skills and all about knowledge? There seems to be something operating here that is slightly different from what the human capital leads us to expect.

Economists like Michael Spence have an explanation; they call it 'signalling'. The explanation goes like this: From among many applicants, employers are trying to pick the ones that are going to be most successful at work. The problem is they don't know which applicants will prove to be the best workers and there's no definitive test – there's no blood test; there's no behavioural test; there's no observational test. So they rely on signals – characteristics that they've come to believe are associated with good performance on the job. So, if you have parents who are graduates, for example, that might signal that you have good role models at home who have taught you how to apply yourself and that will make you a good worker. If you've attended a prestigious university, that could be a signal that you're bright and that maybe you've developed a good network of colleagues.

These signals can be valuable predictors of job performance. In some cases, they have are more important than what you've actually learned at university. For example, if you go to visit any national newspaper in this country and look to see who's being hired there, you'll find more Oxbridge students who have done Philosophy than you'll find Journalism students from less prestigious universities. The employers – in this case the newspapers – would prefer to have graduates of prestigious universities to the graduates of less prestigious universities who have actually studied Journalism. So, if you are a prestigious graduate, if you are a graduate whose parents are also graduates, you are much more likely to be employed than graduates of less prestigious universities.

If education is only a signal then you wouldn't expect new graduates would automatically be more productive and increase the GDP of the country. And that's exactly what we find.

Look at the USA, for example. It's a world leader in the number of graduates. Fifty per cent of people have a degree. And yet its GDP hasn't grown at all for ten years. Russia has a very high percentage of graduates. In fact, it's one of the highest in Europe. No-one would want to emulate the Russian economy. But look at Switzerland and Hong Kong, where there are relatively low percentages of graduates and yet those economies have been booming for almost 50 straight years.

So, despite the many claims to the contrary, there is no automatic correlation between the number of graduates in the population and GDP growth. Still, if it's signals that get you a

job, soon everyone will want them. However, as more and more people obtain degrees, their signalling value becomes weaker and weaker and employers demand stronger signals – higher marks, for example, or degrees from more prestigious universities – and the competition for those universities gets more and more intense.

This year, the trebling of fees may have deterred some small number of students, but the vast majority continue to consider the investment in Higher Education to be worthwhile.

The income contingent loan scheme, which underlies top up fees, encourages students to spend more than they should on higher education. Let, me explain why.

Suppose share market margin loans were made the same way that we make Higher Education loans. You could borrow to buy shares – if they go down, you don't owe any money and if they go up, you get to keep it and repay the loans out of the gains. Who wouldn't borrow on such terms? Someone else absorbs your losses and you get to keep the gains and comfortably repay the loans. You'd borrow and then borrow more because there's no downside for you. This is known as moral hazard; it is how bubbles are created. Higher Education fees have trebled and yet few students are being deterred from borrowing even though, as I said, the economic value of their degree is actually eroding. This is the classic sign of an economic bubble.

Now we know from HEPI research, and the Government's own estimates, that about 34% of top up loans won't be repaid and maybe it's even a bit more than that. That's the price that moral hazard extracts from society; that's the price we all have to pay for people who don't finish their course or who don't gain any economic benefit.

When everyone in the country has a Bachelor's Degree, degrees have no signalling value at all; even elite university degrees will lose their power, and employers will demand Masters Degrees. This is already happening. The Sutton Trust released some research just two weeks ago to show that more and more employers are demanding Masters Degrees from starting employees. Not surprisingly, because they have a strong signalling effect, people with Masters Degrees make more money over their working life than people without them. So, as Bachelors Degrees lose their signalling value, more and more students will want to return to university for a Masters Degree. However, unlike under-graduate degrees, there are no Income Contingent Loans for Masters Degrees. Post-graduates have to risk their own money if they are lucky enough to have any. So, coming down the track is a new problem. Students who come from deprived backgrounds will not be able to afford post-graduate education and Masters Degrees, and they will once again be unfairly disadvantaged.

It is not too late to ask whether another round of degree inflation is really what Britain needs. Now it's true that some graduates do learn work-related skills at university – dentists maybe and accountants – they leave university with some direct employment-related skills but, for the rest, education is not a very good fit with the world of work and you don't have to trust me – just ask employers.

I do believe a rewarding education is a very important part of a fulfilling life and careers really deserve careful preparation. Employers, professional societies, the military, online educators, vocational schools, specialised training schools all do this better than universities. Their training is less expensive than a university degree and it's much more closely tied to the needs of the workplace.

Now I don't want you to get me wrong – I've spent my life in Higher Education and I know that it confers very valuable gifts; it broadens horizons; it introduces students to new ideas and concepts; it helps them to appreciate scholarship and to respect learning, and when it

works well Higher Education induces a love of learning that lasts your whole life long, but Higher Education is a very expensive filter for job placement.

I don't think we're able to change the habits of employers or students – that would be very hard to do. But our Income Contingent Loan system is creating a moral hazard for undergraduates. They're paying more and more for an education that's worth less and less. We're getting a classic economic bubble as the price goes up and the value goes down. Add creeping credentialism, with the growing emphasis on Masters Degrees, and we may find a whole new form of discrimination against poor students who can't afford to study without loans.

It's time, I think, to prick this education bubble and to look at re-modifying the Income Contingent Loan Scheme, to lower the repayment schedule, to include a real interest rate and to consider who might be eligible for it before it's too late and we load both society and students with debt that can never be repaid.

Was that controversial enough?