**Higher Education Policy Institute (HEPI)**

**House of Commons Seminar – 24th April 2013**

**What Role for the Market in Higher Education?**

**Nick Hillman:**

*Introduction*

Thank you to Hepi and the Higher Education Academy, as well as Barry Sheerman MP, for hosting us. Bahram: Hepi is going to miss your energy and panache when you step aside at the end of the year. Whoever replaces you will find it hard to match the style and substance you have brought to the role.

I apologise in advance if I appear stiff, but I am suffering from the London Marathon. You can still sponsor my efforts for the Multiple Sclerosis Trust at www.justgiving.co.uk/nickhillman2013.

I am honoured to speak alongside Roger because the marketisation question is the most misunderstood part of the Coalition's higher education reforms. I speak with some trepidation as I vividly recall the day years ago, in Opposition, when I first saw a letter from Roger to my boss, David Willetts. It was unfailingly polite and interesting, but nonetheless included a devastating and evidence-based critique of our policies.

I am sure Roger's new book offers the same mix of iron-fist-in-velvet-glove, but as the market has priced it at £90, I can't tell you for sure.[1] When I tweeted the price, someone replied 'HE policy books have a relatively inelastic demand curve'. Actually, I am being disingenuous as I have a paperback copy, available at a very reasonable price. Perhaps the market does work after all?

It is a great read, with real breadth, and is rooted in proper detailed history. While reading it, I came to think even more strongly that the changes made to higher education in the 1990s, 2000s and 2010s were largely in the right direction – though I suspect that was not the intention of Roger or even perhaps his co-author, Helen Carasso.

*Individual market initiatives*

I find it helpful to split the marketisation question in two. First, there are the individual initiatives that deliver a somewhat more marketised system but which are becoming more widely accepted. For example, the Key Information Set (KIS), which

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[1] Roger Brown and Helen Carasso, *Everything for Sale? The Marketisation of UK Higher Education*, 2013.

provides higher education applicants with 17 pieces of comparable information about different higher education courses.

Yes, there are complaints about the individual measures within the KIS. We have never said its first version is perfect. But it is hard to find anyone – except perhaps Roger – who still opposes the whole concept. And as Graham Gibbs's recent work for the HEA found, 'making these data available to prospective students in accessible forms, is galvanising higher education institutions to pay attention to a raft of teaching quality issues.'[2]

I hope our relaxation of student number controls will, in time, come to be accepted as a permanent feature too. Last week, David Willetts confirmed we will extend freedom beyond those with ABB or better in their A-Levels (or equivalents) in 2014/15. Reapplying the old tight controls would be a retrograde step because the new liberalisation is working: more 18-year olds got their first-choice higher education place last year, while fewer used an insurance offer or clearing.

And however imperfect the Research Assessment Exercise and the Research Excellence Framework may be, they have helped ensure the UK research base is efficient, high quality and influential. There aren't many people who would wish to return to the old way of distributing funding council research spending.

*Ideologues*

Yet away from these individual aspects of our reforms there remains a substantial group who claim our whole approach is ideologically market-driven and wrong-headed. In a forthcoming book on the 2011 higher education white paper Professor (Claire) Callendar claims:

> *The Coalition's ideologically driven vision is of a higher education sector defined by the market. … Undergraduate higher education is not seen by government as a public good, of value to society as a whole beyond those who receive it, and so worthy of public funding*.

I utterly reject this. Debating whether or not there are public benefits from higher education seems a waste of time because the answer is obvious. There are enormous public benefits. And, despite the cuts forced on us by the need to reduce the deficit, there are generous public subsidies to reflect those benefits.

They include:

- maintenance grants;
- the write-off costs of maintenance and tuition loans, and the extension of the latter to part-time students;
- teaching grant for Bands A and B disciplines, strategically-important and vulnerable subjects and some postgraduate courses; and

[2] Graham Gibbs, *Implications of 'Dimensions of quality' in a market environment'*, 2012, p.43.

- funds for widening participation and retention, including a new National Scholarship Programme.

Universities also benefit from the £4.6 billion ring-fenced science and research budget, not to mention the £1.5 billion extra capital spending found by the Chancellor since the 2010 Comprehensive Spending Review, as well as generous tax breaks for philanthropy. Whatever else this may be, it is not a scorched earth policy.

I usually take my two children to nursery each morning. Now that really is a market. I would give my eye teeth for a capped £9,000 fee and a low-cost loan with income-contingent repayments to pay for it.

Now we know the fees regime is not putting off applications from disadvantaged young people, which are at record levels, we can see the new system is working. So I would be staggered if the Opposition ever saw through their commitment to reduce fees to £6,000 while substantially increasing the Hefce teaching grant to compensate. If any new government did happen to have a spare £2 billion lying about, then subsidising richer graduates by reducing their loan repayments seems an unlikely (and regressive) priority. I note this week's *Sunday Times* interpreted Labour's policy as simply a way of cutting public spending on higher education rather than a means of substituting one income stream for another.[3]

We are also told by the opponents of our reforms that our new system may cost even more than the old one. Our financing mechanism supposedly exaggerates the private benefits of higher education while not saving the taxpayer a penny. That is an incredible proposition, but it can only be sustained by people who put themselves in fantastic contortions. Take the NUS. Last year, the President of the NUS said our reforms were so badly costed that undergraduates 'are now in hoc [*sic*] to a loan shark who is himself in hoc to a gangster'.[4] Immediately afterwards, the NUS started campaigning for the loan scheme to be extended to postgraduates.[5] Their postgraduate proposals were even designed using our economic model, which they had so recently rubbished.

Our critics also attack our approach to alternative providers. We want a level playing field for higher education providers of all types. The precise legal status of an institution is of less interest to us than the quality of its education. But we stand accused in Andrew McGettigan's new book of aiming to skew the pitch in favour of 'value extraction' by a new breed of for-profit providers.[6] I can't fathom why any politician would wish to do that; indeed, we have stressed that past public investment has to be recognised in any change of status.

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[3] Jack Grimston and Sian Griffiths, 'Four out of 10 student loans may never be repaid', *Sunday Times*, p.22.
[4] Liam Burns, 'Foreword', in Andrew McGettigan, *False Accounting? Why the government's higher education reforms don't add up*, 2012, p.4.
[5] National Union of Students, *Steps towards a fairer system of postgraduate taught funding in England*, 2012.
[6] Andrew McGettigan The Great University Gamble: Money, Markets and the Future of Higher Education, 2013, p.viii.

What we have been doing is to map the scope of current alternative provision. This is throwing up some surprising results, which will show that the genie has been out of the bottle for a while now. It would be simply irresponsible of us to leave untouched the slack regulation of alternative providers that we inherited, but equally there should be no artificial barriers to legitimate new providers, who can offer new types of provision as well as competition for traditional providers.

I regard our opponents on the supply-side as the modern equivalent of Henry III, who signed a Royal Decree dissolving the original University of Northampton because it posed a threat to the University of Oxford. I note that Henry III lost, though admittedly that took seven centuries – the Decree was repealed in 2005 enabling the current University of Northampton to be established.

*When the rot set in*

Those who regret the marketisation of higher education usually feel the need to plot a starting point for when the rot set in, and which marks the end of the nirvana that existed before. (Such a rose-tinted view of the past always reminds me of the old strapline from *Viz* magazine, which read along the lines of: 'not as funny and more expensive than it used to be'.)

One recent book notes that a leading broadsheet newspaper referred to the idea of students as consumers twice in 1998 but 442 times in 2011.[7] Roger takes a longer perspective and dates the start quite precisely to November 1979. It was then that Margaret Thatcher's Government decided to end the teaching grant for international students. It is certainly a convenient date for those who like to argue Thatcherism killed off a cosy post-war consensus.

(I only met the great lady once. I was standing next to George Osborne, who was then an up-and-coming backbencher on various important committees while I was a lowly parliamentary researcher. On being introduced to us, she immediately turned to George and said: 'what you do sounds much more interesting.')

Roger's argument that the rot started in 1979 seems ahistorical for three reasons.

First, if treating international students differently is the test of when the market took off, then it shouldn't be dated to 1979 but earlier. Perhaps to 1966, when the fees for home and international students first diverged. Or 1977, when Shirley Williams increased international fees and abolished upfront fees for (first-time, full-time) home students altogether.

Secondly, the level of international fees seems an imperfect measure of marketisation. If we must pick a single moment from which we can date the shift to a more market-based system then why is 1979 a better date than 1967, when Harold Wilson's Cabinet agreed 'to consider further the substitution of loans for part of student grants'?[8] Or 1969, when the responsible Minister, Shirley Williams, proposed

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[7] Joanna Williams, *Consuming Higher Education: Why learning can't be bought*, 2013.

[8] The National Archives: Cabinet Conclusions (67)50, 10 July 1967, p.5.

‘A reduction or removal of student maintenance grants coupled with a system of loans’.[9] Or for that matter 1241, when John of Garland complained ‘The lucrative arts are in vogue and only those things are pursued which have a cash value’.

Thirdly, historical trends rarely have a single birth date. Rather than picking a single date, I tend to see the changes to higher education as an example of how the world gradually shifted, just as it did in other areas. As I attempt to show in a new article for *Contemporary British History* recounting the policymaking behind student loans from the 1960s onwards, this was evidential more than ideological.[10] The evidence on how best to extend higher education to more people has led every party in office at Westminster to similar conclusions about the funding for international students and home students.

*Conclusion*

So my answer to the question of ‘what role for the market in higher education’ is ‘whatever role the evidence suggests’. And to me the evidence is increasingly proving universities can benefit from recognising the benefits of consumer-like behaviour among their students.

I will leave the final word to three researchers who have been looking at the impact of the market on Dutch students. In a recent article in *Higher Education Review*, they conclude: ‘The debate on the student as customer/consumer uses an infantile discourse that charactersises students as immature and irrationals, but students do not behave like infants, they are active, enthusiastic and motivated participants.’[11]

Thank you.

**Roger Brown:**

Thank you. I thought at first I was going to enjoy Nick Hillman’s account of my book, but I certainly didn’t use words like ‘rot’, and what I want to offer you today is a slightly more nuanced and balanced account of the trend towards marketisation than you may have gathered from Nick’s inevitably compressed view of my book.

The exam questions for the seminar are:

1. Is it ever possible to establish an effective market in Higher Education? And let’s just talk about student education for today.

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[9] Michael Shattock, *Making Policy in British Higher Educaiton*, 2012, p.144.
[10] Nicholas Hillman, ‘From Grants for all to Loans for all: Undergraduate Finance from the Implementation of the Anderson Report (1962) to the Implementation of the Browne Report (2012)’, *Contemporary British History*, forthcoming.
[11] Jeroen Van Andel, Charles Pimentel Botas and Jeroen Huisman, ‘Consumption values and empowerment of the student as customer: taking a rational look inside higher education’s “Pandora’s Box”’, *Higher Education Review*, vol.45, no.1, autumn 2012, p.73.

2. Would it be desirable to do so?

And my answers will be 'No', but I will explain why, and 'No' for similar reasons.

But there certainly can be benefits in a degree of controlled competition for students research and other sources of revenue. So I think, instead of talking about pro- or anti-market, the research question really is, "Under what conditions is it sensible to have some degree of market competition, and under what conditions is it not?" And that's what I mainly want to talk about. But before I do that, let me just briefly explain why my answers to the two questions are a qualified 'No' in each case.

Really there are four reasons, and they'll be very familiar probably to most people in the audience, and I almost apologise for having to labour them really, but they are, of course, public goods externalities; secondly the issue of information; thirdly the question of the stickiness of the factors of production; and fourthly a wider issue which applies specifically to Higher Education. The other arguments all apply to a greater or lesser extent to almost any public service.

Public goods externalities I think everybody would accept that. Even Milton Friedman recognised the importance of what he called 'neighbourhood effects'. The present Government recognises those in retaining some degree of direct teaching grant for SIVs, specialist institutions and so on. The argument there is essentially about where the boundary should be between privately and publicly funded Higher Education? And the key point is that the more a Higher Education system is privately funded, the risks that the public goods that the Higher Education system provides, such as an educated citizenry, will be undersupplied increase, and I think that can be seen very clearly in some of the more heavily privatised systems, although we're not far short of Japan and Korea on the latest criteria.

The second difficulty is the informational difficulty. A distinguished member of our audience here, Professor Alison Wolf, wrote a wonderful report for HEQC on graduate standards some 20 years ago, but she also wrote a rather good article in the Times Higher which said two sides of A4 won't do the trick. And I'm afraid that does apply to the KIS. The fact is that there are too many unknown unknowns, not least how the students themselves will actually develop as they mature through the education system. I won't label the informational difficulties. Even the Browne Committee accepted that there couldn't be any realistic indicators of quality of education and I think it's fair to say that neither the KIS nor the National Student Survey has anything very sensible or significant to tell us about quality. Just for the record, Nick, I don't object to providing information for students. What I object to is the weight that is placed on the choices that they make as a result of that information.

But anyway, the key point for today is that, in the absence of the sort of information that in other markets consumers rely upon to distinguish between products, in Higher Education people tend to turn to proxies and in Higher Education there are a number of studies quoted in my two books which show that, invariably, or almost invariably, consumers turn to substitutes such as branding and reputation and that then reinforces stratification, so that what my book describes is a gradual move towards reputational hierarchy at the expense of functional diversity, and I set out there the policies that have produced that. I won't say any more about the information detriment.

The third issue is stickiness in factors of production. Anyone who has worked in an institution knows that most courses take two or three years to deliver. If you build in validation, marketing time, etc., you're talking about a product that takes three or four years to deliver. Yes, it can be done quicker, but then there are other problems. Most economic theory assumes that suppliers can move their factors of production around relatively quickly in response to shifts in demand. I can tell you, from the heart, that it ain't like that in Higher Education.

The fourth difficulty, which really is peculiar to Higher Education, is the wider dangers of commercialisation. The more that Higher Education institutions look like commercial providers, the more commercial providers will challenge the privileges that they have, and the harder it will be for Higher Education to play the critical 'friend to society' role that is the reason for the special treatment in the first place, and that is the really serious threat from marketisation.

What I said was, I really didn't want to talk about pros and cons; I really wanted to tackle what, to me, is a much more interesting question – what are the conditions and circumstances in which some degree of market competition can be beneficial and therefore not necessarily harmful? I list six and I will go through them quite rapidly.

First of all, and the RAE is a good example, or was when it was first created, there are cases when it is a good idea to have competition between suppliers just to sort the market out. I think no-one would deny that the RAE was a very, very timely and useful intervention although, in my book I explain that, as always, the reasons for it were not quite the reasons that have subsequently been given to it. There was a real problem about the proliferation of expensive scientific and technologically based research. The problem is that the RAE also has provided detriments and has long since, in my view, outweighed its usefulness, although it could still be used for particular cases.

The second condition is a need for a balance between public and private funding. As I've said, the UK will soon be amongst the highest and most privatised systems in the world. But also a balance between direct and indirect subsidies for teaching. Because of the informational difficulties and the other problems I've mentioned, it's going to be harder and harder for institutions to cross-subsidise their teaching in subjects that don't have market support. The ironic outcome of too much market competition in Higher Education is actually a reduction in student choice, a reduction in institutional diversity and a reduction in quality. That is, I think, almost inevitable. So there has, in my view, to be a balance between the public and the private funding.

The third condition is independent regulation of the uses made of public and private funds by both public and private providers. We really do need to see – and I think this is probably about the only point on which I agree with the present Government – we do actually need to know what institutions are doing with the additional resources that they're getting – not only for teaching, but also, by the way, for research, and how it is actually improving student learning.  There I would certainly be in agreement.

The fourth condition is that you do need State intervention to protect equity.  Nick mentioned various things that the Government has done to support widening participation.  Unfortunately, virtually all our policies in the compulsory sector march against that.  There are various ways in which markets essentially reproduce social inequality rather than deal with it, but that goes beyond Higher Education policy.

The fifth condition is the need, which I think is axiomatic in my book, for a strong State role to ensure that competition has benefits without unnecessary costs and detriments.

The final condition is one I'd like just to spend a little bit more time on and it answers very well I think to Nick's critique of my book.  I think the final and, in a way, the overriding condition, is a better awareness of the limits of market competition if we want a healthy and diverse Higher Education system.  I had actually forgotten that on the day that David Willetts became a Minister, I personally delivered to his offices in Portcullis House the last part of my previous book based upon the study of marketisation of various advanced Higher Education systems.  There is now substantial literature on the effects of market competition in Higher Education and it largely replicates the messages of the even more substantial literature on the effects of competition in the school system.  If anyone has any familiarity with that literature, they will know that there is simply no excuse for Ministers being surprised when all or most institutions charge the maximum fee when some subjects were placed at risk by greater competition; when some of the elite institutions don't expand; when detriments to quality become clear; when institutions concentrate their resources on improving their rankings or their NSS scores rather than improving educational quality; when institutions put resources into marketing and branding to attract, rather than educate, students.  There is also an underlying danger of creating what we already see with the American Ivy League and our own public schools – a privatised elite of institutions.  It's clear from the work I've done on the American Ivy League institutions and our public schools that they use public resources to put a considerable distance between themselves and other providers, to the detriment of the system as a whole.  I think there is a particular danger in this.  What you have, in fact, is not real competition.  It is the creation of a reputation and resource and research based oligopoly, if you like, and I think the ABB rule incidentally is also now carried through into secondary school performance tables.  Another difficulty with marketisation in Higher Education is it does affect marketisation in the schools.

Well that's all rather sober kind of stuff.  I would be very interested to hear what people have to say and Nick, I'm sure, will have the opportunity to respond.  I always try and end with some kind of funny line so, to Nicholas Hillman, I'd like to quote the late Peter Cook.  He, if you remember, had a character called Sir Arthur Streeb-Greebling who had attempted for many years to teach ravens to swim underwater and had never succeeded and his answer always was, "I've learnt from my mistakes and I'm sure I can repeat them."

**Nicholas Barr:**

Good morning everybody.  I normally start off by saying that it is a pleasure to be here, but today is very much a case of  mixed feelings.  It's a great pleasure to be here, but absolutely appalling that this is Bahram's last seminar in charge, and I want to add my own thanks to those that have already been given for all that you have done.  We are all enormously grateful.

Discussing markets raises two questions that shouldn't be blurred.  The first is:  Has the introduction of market forces in England been done well?  My answer is 'No.' The second is:  Are markets in Higher Education inherently a bad idea?  That is a different question, and my answer is 'No.  I think markets done well are essential.'

Let me start, very briefly, with objectives:  what are we trying to achieve?  Quality, access, size.  The first two are obvious.  The third, size, is sometimes overlooked. Technological change is driving up the demand for skills.  Having too small a Higher Education sector is shooting ourselves in the foot in terms of social mobility and in terms of national economic performances.

Lessons from economic theory:  I have talked about some of these before at HEPI breakfast seminars.  I'm going to list them and then talk a bit more about two of them.

Lesson 1 – Graduates should share in the costs of their degrees.  This is the externality argument that Roger has talked about.  Higher Education has a private benefit to the individual graduates in all sorts of ways, but it also has significant social benefits, so it is right that its costs should be shared between the taxpayer on the one hand and graduates on the other.

Lesson 2 – Well-designed student loans have core characteristics.  In particular, they should have income-contingent repayments, but there are other important characteristics.  One, to which I shall come back, is that loans should not be too expensive to the taxpayer.

Lesson 3 – Competition between universities helps students.  I will come back to that immediately.

Lesson 4 – Government has an important and continuing role.

Let me just talk a bit about Lessons 3 and 4.  Competition between universities helps students.  The right question to ask is whether competition is always a good idea; the answer is 'no'.  Competition works well where there are well-informed consumers. So one of the central questions in this debate is whether or not it makes sense to regard students and employers as well informed.  My argument – but ultimately it's an empirical question and something that you might want to come back to – is that it makes much more sense to think of students as making their own choices on the basis of good information as being the right way to drive the system, rather than to say students are not capable of making those choices.

Are all students well informed?  No, they're not.  We know that there is a significant socio-economic gradient.  Students from poorer backgrounds face information problems which policies to widen participation need to recognise and address. I will come back to competition.

Lesson 4 – Government has an important and continuing role. My list and Roger's have quite a lot of overlap. In my view of a well-designed, competitive system of Higher Education, Government would always have these roles, not just as an interim thing, but as a permanent part of the landscape, to provide taxpayer support for Higher Education, amongst other reasons in recognition of its external benefits; secondly, to ensure that there is a good loan scheme; thirdly, to adopt, encourage and mandate policies to widen participation; fourthly – and this is central to the sorts of things I'll be discussing – to regulate the system. There is an argument for a fees cap of some sort, whether a hard cap or a soft cap, in perpetuity because of some of the arguments that Roger has made. Universities may compete on teaching, but elite universities are also selling students access to the network of their peers. Consider, as an example, the Ivy League universities in the United States. Yale isn't just selling its teaching; it's selling access to the Yale Class of 2017, and that is why they can charge such high fees. They don't distribute dividends to shareholders, because they are not that sort of institution, but reinvest in incredibly high-quality facilities. I used to think this was just economic theory, but I heard the President of an Ivy League university at a conference a couple of years ago using a phrase that was electrifying. "It's time," she said, "to call a halt to the amenities arms race." So you need a way of stopping fees getting out of control. You also need to regulate the system to make sure that there is effective quality assurance. The Government doesn't have to do the quality assurance, but it needs to make sure it happens.

The next task of Government is to set incentives establishing just how competitive the system, with the possibility of different answers for different parts of the sector, and larger subsidies for certain subjects. There is the issue of redistributing in Higher Education – some institutions are big enough and ugly enough to stand on their own feet better than others; to finance research; and, finally, to ensure that statistics are collected. So no sensible person arguing for a market system in Higher Education should imagine for a moment that there isn't an important and continuing role for Government.

Quality assurance is very much at the heart of this topic. There are two ways you can do quality assurance. You can either have inspection, or you can mandate the publication of relevant consumer information. The slide shows one of my research activities in the Autumn of 2000. These are the 14½ filing cabinets in LSE's largest Committee Room prepared for the 3½ day visit from the Quality Assurance Team coming to inspect the quality of LSE's teaching of Politics. There were another 14½ filing cabinets for Geography, another for Social Policy, etc. Those of you who were academics at the time will remember this was not the most distinguished time in British Higher Education, although I must admit I was one of the few people who had a moment of pure joy at a QAA meeting at LSE when I suddenly realised that all my distinguished colleagues were behaving just like bureaucrats under Communism, responding to the bureaucratic incentives without any conceivable regard to a good outcome like better quality teaching for students.

Much better, instead of inspection, to mandate relevant consumer information. The best form of quality assurance is to have well informed consumers. Now that won't work everywhere. In the case of medical care, none of us is allowed to walk into Boots and buy whatever pharmaceutical drugs we like over the counter, with very good reason. It is the view that we don't know enough to choose our own pharmaceutical drugs. On the other hand, with Higher Education I think the approach is useful. An intelligent 16 year old will ask questions like, "Will I be well taught?" "Will it be fun?" "Will I get a good job?" So, important parts of quality assurance are mandatory publication of evaluations by students and others of teaching, surveys of the student experience and next destination statistics. In other words, a market test of the employer's view of quality. Of course, some of those are hard to measure and that's a real challenge, but it's not a case for bureaucratic forms of quality assurance that simply don't work.

The idea behind this approach is the opposite of one size fits all. You concentrate quality assurance resources where they are most needed so you have a system with three elements: mandatory publication of relevant data, as I have discussed. You can argue whether KIS has got there yet or not – I suspect KIS hasn't got to anything like its end point, but it is very much a step in the right direction. That would be supplemented by light touch self-evaluation by institutions where things are going well, with concentrated assistance for institutions with significant quality problems.

A few concluding thoughts. The argument for fees is they bring in extra resources. The taxpayer cannot afford to pay the entire cost of a large, high quality Higher Education system. Competition creates incentives to use those resources efficiently. Roger talked about the unknowable. In many ways that is *the* case for competition. It brings in flexibility and, properly regulated, it encourages innovation. The future is unknown and unknowable. A letter from the Head Teacher in our village school to the parents of our grandchildren said something that I haven't been able to stand up, but it is illustrative. "Remember," it said, "80% of the jobs your children will fill haven't been invented yet." Now admittedly we're talking about a long time horizon because a ten year old today will still be working in 60 or 70 years' time, but it makes the point that the future is unknown and unknowable; technological advance is rapid; Higher Education institutions need to be able to respond; and competition is helpful within the package of Government interventions that I've talked about to bring that about.

I have a slide that I won't bang on about – 'What's Wrong with the US System?' Answer: 'It ain't a system; it's just a bunch of policies.' You've got competition, but not the strategic roles of Government that I have talked about, so you've got one bit of it but not the other.

It is an economists' point to argue that policy should resist the temptation to corner solutions. It's very common to say if something's good, then more of it is better. If competition is good, more of it is better. If markets are bad, more central planning is better. Unrestricted market forces are sub-optimal – look at the United States; look at the banking system. Central planning is sub-optimal – look at what happened to the Communist system. So you need to think of how you get the benefits of competition, but how to regulate the system so that you get the benefits with as few of the costs as possible. The same is true about who should pay for Higher

Education.  Taxpayers paying the entire cost is sub-optimal.  Graduates paying the entire cost is sub-optimal.  Again, the issue is how you share the costs in a sensible way.

The way forward, which I talk a little bit about in my critique of the 2012 reforms, is that, to me, the core problem with the present arrangements in England is the following:  Until 2012, interest subsidies made loans fantastically expensive so the Government capped student numbers.  The reforms fixed that problem, but raised the threshold at which loan repayments start so high that loans are fantastically expensive in fiscal terms, so student numbers are capped.  That is the core problem.  Get the loan design right; then loans do not cost the Treasury a bundle; then one can start to relax student numbers.   Having competition within fixed student numbers is not going to get any of the gains.  So, if my Fairy Godperson allows me only one wish, it is to freeze the £21,000 threshold for which loan repayments start.  Over time, that will bring down the cost of student loans so that we will able to relax the numbers constraint, which is important for social mobility and important for national economic performance; with a more relaxed numbers constraint, universities can operate not in the quasi competitive regime we have at the moment (which, in many ways, has elements of the worst of both competition and central planning), but in a way where you get the benefits of competition without most of the costs.

So the bottom line is – distinguish the two questions.  Are we doing it right at the moment?  No.  I agree with a lot of Roger’s criticisms.  Does that mean that the competitive market approach is the wrong one?  No, it doesn’t.  I’m sure it’s the right one.

Thank you very much.