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**HIGHER EDUCATION AND THE MARKET: PROTECTING QUALITY  
AND DIVERSITY IN A MARKET DRIVEN SYSTEM**

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**Introduction**

*Where effective competition can be created, it is a better means of guiding individual efforts than any other. (Hayek 1944, quoted by Marginson, 2004: 207, in Teixeira et al, 2004)*

*A more competitive market is the approach that we are supporting elsewhere in education and elsewhere in the public services, and I believe that higher education in general will benefit.*

(Ruth Kelly, Secretary of State for Education and Skills, speech to the Universities  
UK Annual Conference, 2005)

*Just as capitalist markets generate inequality of wealth in the economy, market coordination in American higher education has tended to exaggerate financial inequality across colleges and universities, and encourage social inequality in student access to educational opportunities. (Geiger, 2004: 180 quoted in Teixeira et al, 2004)*

1. I want to put forward three propositions today:
  - first, the trend towards marketisation – where there is increased competition on both quality and price for all of the products of higher education – is one that will not be reversed;
  - second, that we have to debate and decide, rather urgently, what in this situation is the public interest in higher education, and how and by whom it should be defined and protected;
  - third, because of the potentially dramatic impact of markets on student learning in particular, we will have to be much more radical in our thinking, in particular about regulation and funding, than we have so far been. We shall have to give up our efforts to try to “agenda” the system, and instead confine ourselves to targeted interventions within an enhanced regulatory regime, where “enhanced” does not necessarily mean more burdensome.<sup>1</sup>
2. Whilst the state is nearly always the main funder of teaching,<sup>2</sup> there is almost everywhere a trend towards marketisation so that the supply and demand for

higher education is increasingly the product of autonomous interactions between institutions and individual students and funders. This partly reflects the pressure on taxpayers as higher education expands, but it also reflects the greater efficiency in resource use that stems from competition<sup>3</sup> (Teixeira et al, 2004).

3. At the same time, there is a growing consensus in the literature (Teixeira et al, 2004, see also the special issues on markets in *Higher Education Policy* (1997, 10 (3/4)) and *Higher Education Quarterly* (2003, 57 (2)) that simply leaving supply and demand to the market will not necessarily deliver outcomes for higher education that either represent the best use of resources or that are just ie that are socially optimal.<sup>4</sup>
4. There are three specific problems:
  - first, there are wider benefits from higher education that it is not in the interests of private providers to offer because they cannot recover the full costs through pricing. This is the familiar concept of externalities. It is used to justify some public subsidy of both tuition and student support in nearly every major country;
  - second, because of the wider role that higher education qualifications play, there is in almost all jurisdictions some limitation on entry. This necessarily confers market power on the existing providers, a market power that can be abused because of the third problem, information;
  - it is information that is the real difficulty with marketisation in higher education. This is primarily because of the absence of agreement about how to define and measure quality (of student learning and achievement). The result is that prestige plays the part that price plays in conventional markets. This fact reinforces the tendency in many institutions for resources to be redirected towards those activities that many academic staff value, such as research, even if they are not necessarily valued, or even wanted, by the wider society (Riesman 1956 and Brewer, Gates and Goldman 2001, Ehrenberg 2002, Dill and Soo 2004).<sup>5</sup>
5. Now all of this is fairly familiar stuff. The issue is how, as we take a further significant step in the market direction with variable fees and bursaries, we capture the benefits of greater competition without the potential detriments: reduced institutional diversity, narrower social participation, a more limited range of healthy subjects and wholesale academic drift. All of these are features of the current US scene. These features have also been found in Australia:

*Positional markets tend to segment into different groupings, sub-markets, with the segments aligned in a vertical hierarchy and firm barriers limiting upward movement between segments... Intensified competition per se strengthens the position of the leading institutions and their hold on all of the rewards of competition... Weaker*

*institutions face a debilitating choice between marginal academic integrity and entrepreneurial excess* (Marginson, 2004: 211 quoted in Teixeira et al, 2004).

6. Having thought about this for some years, I think that the answer to how we combine markets and public interest really boils down to two questions:
  - first, what are the particular functions that need to be exercised if the public interest in having a diverse, accessible, efficient and high quality higher education system is to be protected?
  - second, how and by whom should these functions be exercised?
7. I am incidentally assuming that there is a public interest in having a system of higher education, so that, for example, any student entering any British higher education institution can make certain assumptions about the quality of the education likely to be on offer.<sup>6</sup>
8. My view is that in a market driven system, there are two particular needs that cannot be met simply through the interplay of institutions and students if the full social benefits are to be captured. These are regulation and development. I want to spend the rest of this brief presentation proposing how these should be handled in the more market-based system we are rapidly moving to. I want first to define the functions, and then say how they should be discharged. Let me start with regulation.
9. It has long been accepted that effective regulation is a pre-condition of market effectiveness (Jongbloed, Marginson and Massy in Teixeira et al, 2004). There is also general agreement that such regulation cannot simply be left to the agents concerned. There is in most developed higher education systems a mixture of academic, state and market regulation, with academic self-regulation within a framework laid down and underwritten by the state the commonest form (as in Britain). There remains an issue about how best to secure the public interest in such a mixed regulatory system, to which I shall come back in a moment.
10. In a more marketised system the other main public interest lies in protecting or promoting provision that either would not exist or would not be healthy without such intervention. I call this second function “development” partly because it sounds more positive than simply remedying market failure (although this is essentially what it is), partly because this will require some public body to play a proactive role, which could best be christened “developmental”, but mainly it is with the development of the system that we are concerned.
11. Now it will immediately be said that all this is uncontentious, as well as obvious. The functions of regulation and funding are already being discharged, quite satisfactorily, by the existing agencies. A few tweaks here and there together with better coordination are all that is required.

12. I am afraid that this is the classic Establishment response. There are only three difficulties with it.
13. First, the present arrangements for both regulation and funding are already sub-optimal in the use of resources. There is already real or potential duplication between regulators. Second, to the extent that the Funding Council is responsible for both funding and regulation it is clearly conflicted: how can the same organisation both promote particular objects and make and convey to others judgements as to how successfully these objects have been achieved? (Adam Smith's classic comment about universities – that he could not see how one could take seriously organisations that were run both by and for the same group of people – comes to mind.) Third, and above all, marketisation presents both regulation and funding with far greater challenges than previously. Quality becomes **the** key issue, alongside access, for the whole system. So how in such a system should the functions of regulation and funding be discharged? Let me start with regulation.

## **Regulation**

14. In spite of the efforts made by various bodies over the years – most recently by Dame Patricia Hodgson and her Higher Education Regulation Review Group - higher education remains subject to a bewildering number and variety of regulatory regimes. Some of this may be unavoidable because the regulatory bodies themselves appear to be beyond the reach of corrective action (the professional and statutory bodies come to mind in this context). But there would certainly appear to be scope for combining and streamlining the functions of the three main “public” regulators – HEFCE, QAA and TTA – into a single “OFHE” with a concise but comprehensive range of functions. Initially this could be a revamped QAA.<sup>7</sup>
15. The fundamental purpose of such a body would be to provide information to students, funders and other stakeholders about how successfully each institution was achieving its mission. Hitherto quality has been associated with status: quality must be divorced from status. So far as teaching is concerned, the new agency would look in particular at how each institution uses its resources to add value for its students through its academic programmes and related activities including staff research and scholarship. This would be done through periodic audits. A possible template already exists in the current rules for assessing applications for degree awarding powers and university title, rules that have existed in essentially their present form since 1992 and which command widespread acceptance (QAA, 2004).<sup>8</sup>
- 156 Such streamlining of regulation is common in other sectors of the economy (Davies, 2004), and was indeed one of the recommendations of the Lambert Review (H M Treasury, 2003). But this is not just about improving the use of regulatory resources. What we have still to grasp is that in a marketised system quality becomes far more important than in the more publicly controlled system we have had. You might think, following the quality wars of the 1990s (Brown, 2004), that you have heard quite enough about quality. I can assure you that, in the words of the prophet: “you ain’t seen nothin’ yet”.

17. [More seriously] It is absolutely vital, both for the sector and for society, that there is a powerful, independent agency to monitor not only **relative** levels of quality (how university X compares with university Y) but also **absolute** levels of quality, for example how the quality of the student experience may itself be affected by market forces.<sup>9</sup> This is a severe weakness in our quality arrangements already. It will become a gaping hole with variable fees and bursaries. How, without enhanced regulation, can we possibly control quality?<sup>10</sup>
18. Finally making OFHE directly accountable to Parliament would reduce the susceptibility of the present regulatory agencies to influences, formal or informal, from government (if not from politics) whilst enabling a properly independent and credible view to be taken of quality across the sector, something which the sector and its representative bodies can never achieve however hard they try.
19. Such a mission focussed scheme would also fit in well with a funding methodology based on institutions' effectiveness in achieving their missions. This brings us to development.

## Development

20. What is needed here is a Higher Education Development Agency with the statutory duty of ensuring, by every means in its power, the existence of a diverse, accessible, efficient and high quality higher education system.<sup>11</sup> There would be particular responsibilities in relation to access. Given the importance of higher education to the successful functioning of a modern industrial economy, there might be a case for such a body also to be independent of government. But this hardly seems realistic. This role might therefore be played by a revamped Funding Council, albeit with a more transparent system of accountability to Ministers.<sup>12</sup>
21. The main means by which this duty would be discharged would be through funding individual institutions on the basis of their contribution to the system-wide objectives of diversity, accessibility and efficiency, as well as their success in achieving their individual missions. They would also have to meet basic quality levels. This would be done through funding on the basis of multi-annual plans.
22. In effect, each institution would propose a plan for its future development to the Agency showing how it was intending to realise its mission through its main activities and indicating the required resources. The Agency would allocate funds, taking into account both the institution's track record to date and the desired characteristics of the system as a whole over the future period (there would of course be prior consultation about these). The plan could also be used for negotiations with other funders.
23. This would enable the Agency to intervene to safeguard the public interest by promoting or protecting particular kinds of provision, including specific

subjects, types of provision and/or institutions, by, for example, increasing (or reducing) the price paid for certain outputs. This in turn could involve, indeed does already involve, a role in restructuring provision (where the Agency may need greater powers than the Funding Council currently possesses).

24. There is a small but informative literature on development funding. This suggests that a funding method along these lines is technically feasible, and that in principle this is the most effective way of ensuring a more balanced system. The main objections have been the apparent degree of interference by the Agency in institutions' affairs, the amount of bureaucracy that could be involved, and a potential loss of transparency.
25. In the time available I can't deal with these criticisms. (There are defences.) I would merely say that mission-based funding provokes a quite irrational reaction on the part of some apparently quite rational people, and that this may explain why the suggestion that it should be adopted in a more limited form as a means of supporting institutions' knowledge transfer activities (Hatakenaka, 2005) has not been supported.

## **Conclusion**

26. In 1940 General De Gaulle flew to England on the last plane out of a beleaguered Paris. Churchill met him when he landed at Northolt. In the course of their conversation De Gaulle asked Churchill what Britain would do in the event of a German invasion. Churchill produced his usual rhetoric about fighting on the beaches, fighting on the landing grounds etc. De Gaulle cut him short by asking: have you any idea what it is like dealing with a panzer division?
27. Ladies and gentlemen, market forces are the equivalent to panzer divisions! If we continue with our present structures and policies, increased competition will do our system real damage. We must learn from what we already know about the operation of markets in higher education, especially America but also Australia. Even before variable fees and bursaries, there are concerns about the future of particular subjects and kinds of provision. Neither rationalised regulation nor development-based funding is a radical concept, unless you happen to be simply a defender of the status quo. We need to get away from these backward looking perspectives and move the discussion onto more open ground if we are to be sure of having a system that is genuinely diverse and accessible as well as efficient. With variable fees and bursaries just around the corner, not to mention the review of the cap, the matter is urgent. Who will join me?

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## NOTES

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<sup>1</sup> The Funding Council's draft Strategic Plan for 2006-11 is an example of such agendaing.

<sup>2</sup> Bahram Bekhradnia at the Higher Education Policy Institute has calculated that even after variable fees the Government will still be the main funder of tuition. Under the current arrangements the cost of higher education to the individual is about 8% of the total. This will increase to about 18.3% under the new arrangements, leaving the Government to pay for the remainder (Bekhradnia, 2005, personal communication to the author.)

<sup>3</sup> *Summing up, the introduction of market forces has contributed to a significant reduction in the cost per student in a number of the country cases, since growth in overall funding has not followed student expansion (Williams; Teixeira, Rosa and Amaral). Although this has not necessarily been an improvement in terms of efficiency, there are strong indications that the pressure on universities for more market-like behaviour has had a positive impact in terms of cost per graduate and scientific productivity. Certainly, concerns have been raised about decreases in teaching standards and in the quality and depth of research. These concerns deserve to be investigated, but at the moment there is a lack of solid evidence.*

*The increasing use of market mechanisms in higher education has also made important contributions to the way in which universities operate. Such mechanisms have definitely made higher education institutions more aware of their organisational needs and shortcomings. Although one can easily give examples of a naïve and simplistic use of business tools, the growing familiarity of universities with managerial instruments and practices has shown that these can make a valuable contribution to institutional development (Massy). There have been notable improvements in the level of knowledge about the institution, its positioning in the system, and the needs and demands of students and employers. There is also evidence (Salerno; Massy; Williams) that many universities have become far more flexible, resilient and responsive than some observers acknowledge. Certainly, these changes were not painless and governments need to be constantly vigilant about achieving the right balance between economic and non-economic motives of higher education. (Dill, Teixeira, Jongbloed and Amaral, 2005: 345 quoted in Teixeira et al, 2004)*

<sup>4</sup> Markets may not even deliver the claimed for range of benefits in relation to conventional goods and services (Nickell, 1996).

<sup>5</sup> For a fuller discussion see in particular Dill and Soo in Teixeira et al 2004, cf Dill and Soo 2005 and Dill 2005 (unpublished). In the same volume (Teixeira et al, 2004) Geiger and Marginson show how, given the treatment of higher education as a "positional good" (Hirsch, 1976), the introduction or intensification of market forces has led to a strengthening of the elite institutions and a reduction in the general level of welfare.

<sup>6</sup> Cf Brown (2005b) for a more detailed account of the interdependence of institutions.

<sup>7</sup> The other main public funder of higher education is the NHS where the QAA already acts as an agent for some quality control purposes.

<sup>8</sup> At the same time The Funding Council's revised *Audit Code of Practice* makes it clear that the identification and handling of academic risks is to be part of the purview of an audit committee (HEFCE 2004 see especially paragraphs 101 and 107). Whether those committees or the auditors who feed them will be equipped for the task is of course quite another matter!

<sup>9</sup> *We have major developments in our midst which at the very least pose challenges for quality: the expansion in student numbers; the worsening of staff-student ratios; the fall in the real unit of resource; serious and continuing under-investment in the learning infrastructure and in staff development; the increasing use of communications and information technologies; the increasing resort to untrained, unqualified and poorly motivated 'teaching' staff; the increasing separation of 'teaching' and 'research'; increased student employment during the academic year etc. Yet hardly any of these has been seriously studied or evaluated for its impact on quality, any more indeed than the accountability regimes themselves have been (Brown, 2000: 10).*

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<sup>10</sup> In his most recent writing, Dill is doubtful whether even having valid consumer information on academic quality will be sufficient to strengthen the capacity of the universities to assure academic quality:

*Therefore, if competitive higher education markets are to efficiently maximise the production of human capital for society, state monitoring or incentives for institutional self-regulation may also be needed to maintain the integrity of each university's collective process for assuring and improving academic standards (Dill, 2005 unpublished).*

Dill comments that there is an obvious parallel with government regulations in America designed to strengthen corporate processes for assuring financial integrity in competitive markets.

Dill summarises the argument:

*In sum, because the new competitive market context is characterised by inadequate and inappropriate information, an ambiguous conception – “academic prestige” – comes to represent educational quality in the public mind, which can lead to a price-quality association that undermines productive efficiency. The distorting influence of prestige in both the US and the UK markets means that the educational costs of elite universities provide a “price umbrella” for the rest of the system and present spending targets for less elite institutions that wish to compete by raising their prices (Massy in Teixeira et al, 2004). Competitive markets thereby encourage an academic “arms race” for prestige among all institutions, which rapidly increases the costs of higher education and devalues the improvements to student learning. As noted in both the UK and US, an unregulated academic market can lead to a situation in which no university constituency – students, faculty members or administrators – has a compelling incentive to assure academic standards. This is a recipe for classic and significant market failure in which the rising social costs of higher education are not matched by equivalent social benefits (Teixeira et al, 2004) (Dill, 2005 unpublished).*

<sup>11</sup> In my recent inaugural professorial lecture (Brown, 2005a) I suggested that an “excellent” higher education system is one which:

- is valued and rewarded primarily for its intrinsic qualities and activities in creating, conserving and disseminating knowledge;
- is characterised and distinguished by the fact that its staff are engaged in research and scholarship both for their own sake in advancing knowledge and to underpin teaching and other activities;
- has a genuine diversity of provision which incorporates within itself stimuli for innovation and experiment in particular to meet the needs of new groups of students, or new kinds of learning needs, by either existing or new institutions;
- has as a result a student population that broadly reflects the make-up of society at large;
- has a balance between institutional autonomy and system integration;
- has a well-motivated and fairly remunerated staff underpinned by robust equal opportunities processes and practices;
- is adequately funded for its core activities of teaching and research and scholarship, whilst continuing to have plenty of incentives to make the best use of its resources and to diversify its sources of income; and
- is effectively regulated in the public interest, so that it produces worthwhile outcomes for both external and internal stakeholders.

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<sup>12</sup> There have been suggestions in the past for creating a body specifically charged with promoting the health of higher education. A study commissioned by the Leverhulme Trust in the early 1980s referred to the fact that there was a strong appeal for the establishment of “some kind of higher education co-ordinating council” (Williams and Blackstone, 1983: 109)