

Roger Brown

[Roger's speech should be read in conjunction with his handout - <http://www.hepi.ac.uk/downloads/TheOperationoftheMarketinHEshort-RogerBrown.pdf>]

I want to make four propositions today. First of all, I think the central strategic issue in policy in UK higher education is the degree of marketisation that we want to have in the system. Secondly I want to argue that in determining that, we should take account not only of the literature on the subject, but also of experience in America and my report on America. Not because I think we should go back to a time of state control and a state funded system, but because – thirdly – I think the American system – systems – do show some of the strengths of marketisation, but also what can happen when (in my view) the market gets out of control. And my fourth argument is that if we wish to capture the benefits of market competition and avoid or minimise some of the detriments, then we ought to be very cautious in the UK about going any further down the marketisation route.

One or two preliminary points. First of all, I'm assuming that although the evidence about market failures in the private sector is staring us in the face, there won't be any early "read across" to the public sector – I'm assuming that reform, if that's what it can be called, will continue. Secondly I shall mainly be talking about the market in undergraduate student education, but many of the comments of course apply equally to other areas, like research. And thirdly I want to avoid getting into an argument, including an argument with Nick, about whether any of us are arguing for a fully marketised system. I don't think very many people would argue in favour of going back to a state-controlled, state-funded system, but on the other hand I don't think many people (though there may be one or two "silly billies") would argue for a fully marketised system.

Nevertheless, I thought – to get the thing in context – I would set out what a pure market in student education might look like, and if you refer to the handout I describe it there as having five main features.

- First of all, little or no regulation of market entry, so there is open entry for providers.
- Secondly, no regulatory limits on the prices institutions charge, or the number of students they enrol.
- Thirdly, the cost of teaching is met entirely through charges (fees) which approximate to average costs, rather than through a combination of fees and grants to institutions.
- Fourthly, the cost of teaching is met from users' own resources rather than subsidies from the taxpayer.
- Finally, and to my mind most crucially, users decide what, where and how to study on the basis of information about the price,

quality and availability of relevant subjects, programmes and providers.

The economic literature is very clear, and I'm sure Nick will expound with great eloquence about the benefits of the market model – greater effectiveness and responsiveness to student needs, greater efficiency in use of resources, and also (probably, though it is not certain) being able to leverage large amounts from the private investment system rather than simply relying on public funding. One claim that is not made by market advocates is that they will thereby render a fairer system and a fairer society, but the argument usually is that it is not a matter for the market but for the state through the public tax system. Market advocates usually accept a limited regulatory regime. That is a crude, very quick simplistic sketch of what a pure market system in higher education might look like, and of course, no system is like that. But even though it is only a model, it does I think help us see what the limitations of the market theory as regards student education might be, and given that some people favour that and many others feel we should be working towards it, it isn't just a straw man.

So the main limitations of that model, well, I'd identify three, and again I don't claim any originality for that:

- The first is that the model assumes that the benefits of higher education mainly accrue to private, individual users. But, as I think everyone would accept, higher education provides a mix of public and private goods, and without subsidies some of those would be undersupplied. So even in America the great bulk of university funding comes in one way or another from the public purse.
- The second limitation is that higher education plays a key role in accrediting knowledge particularly the knowledge needed for the professions, which is why, incidentally, the quality and health of the academic profession ought to be a central preoccupation of policymakers. It is why market entry is regulated in most systems.
- The third limitation, and one that I'm going to say more about now, is the information limitation. In my view it is simply impossible to provide the information about product quality that a properly functioning market requires. This is the central problem, as I would see it, in marketisation as applied to higher education.

If you refer to the handout you will see a section called The Information Problem, where I give you some quotes from people who have studied this. I think it's fair to say (though I'm not an economist) that there does seem to be agreement among most of the people who've written about this that market competition confers benefits **only** when both producers and consumers are well informed. Therefore, applied to student education, students must be able to make and act upon judgments about the relative quality of the programmes and awards offered by different institutions alongside information about price et cetera. And secondly institutions must

be able to react to those judgments by adjusting price or quality in order to maintain and increase demand for their product. I think that is probably fairly uncontroversial.

It's when we come to think of the implications that I think things begin to get a little more difficult. I've set out six conditions that I think would need to be met for the market theory of information about education to work.

- The first is that there would need in the first place to be valid and reliable information about product quality to enable proper comparisons to be made – to compare studying history at Cambridge with history at Oxford, or whatever.
- Secondly, this information would need to be available in a timely, accessible and equitable form.
- Thirdly, it would need to be tailored to individual users.
- Fourthly, it would need to be interpreted in a rational fashion.
- Fifthly, institutions would need to be able to react appropriately to the judgements and actions.
- Finally, last but not least, someone would have to pay for it.

This also assumes, of course, that providing information is the most cost-effective and powerful way of protecting quality. I shall argue later that it isn't.

Let's think about these conditions one by one – I won't go into great detail, because they were set out in a publication that HEPI produced some while ago¹, but just very briefly.

The first condition was that there had to be valid and reliable information available to students about comparative quality. My view is that this condition can only properly be met if we have a national curriculum, with national tests administered by national examiners. There is a huge diversity in the system. In a subject such as mine, history, there are some 60 different kinds of history programme in the sector. There's often very little overlap in course aims, content et cetera. We also know, from Mantz Yorke among others, that there's a huge variety of assessment practices in the sector, as well as long-standing problems that we seem to have in assessing students effectively. We should also note that of course the students themselves are an important determinant of the quality that they experience. But finally, and not least importantly, we need to bear in mind that most of this information comes from institutions. I'm afraid that marketisation does give institutions a very considerable incentive to cheat, as we're discovering from some of the most recent RAE results! So I'm very doubtful whether it can be done. If you want further evidence I'd refer you to the work of the

¹ *Financial support in English universities: the case for a national bursary scheme*, September 2008

HEQC Graduate Standards Programme, which set out the problems in more detail.

However, let's assume you have got that information. The second condition is that it needs to be available in advance. The economists seem to agree that higher education is an "experience good", the quality of which you can only determine as you experience it. But in fact, higher education is really a "post-experience good", and it may only be long afterwards that you appreciate what you experienced, and you may not be able to trace it back to a particular educational experience. The information has also to be accessible to the "two clicks" generation, and it has to be fair, when there is plenty of evidence that students from less favoured backgrounds are even more disadvantaged in making judgments than those from better backgrounds. So I don't think that condition can be met.

Thirdly, the information would need to be tailored to the needs of individual students, which of course increases the difficulty and cost. The problem with so many attempts to assess student learning is that insufficient account is taken of the background factors which go into that learning. And of course students may not be the only people who are the users of the information – what if their judgment conflicts with that of their funders?

Next, students would need to use the information rationally, but all the evidence is that students are no more or less rational in using information than most other consumers.

But, condition five, if students don't act rationally, how can we expect institutions to do so?

And, finally, who pays? And what other activities and potential benefits are foregone?

And I quote the American economist in higher education, Gordon Winston, "People investing in human capital through a purchase of higher education don't know what they're buying and can't know what they have bought until it is far too late to do anything about it." In other words, relying upon information to discipline price is a blind alley so far as student education is concerned, though it is of course central to the efficiency argument for variable fees (and what other argument is there?).

Now this is not an unknown phenomenon: the fact that consumers may not have direct information about product quality is not unknown in economic literature. McPherson and Winston suggest that in these circumstances buyers will seek, and suppliers will try to provide, symbolic or indirect indicators of quality. In higher education, it is prestige which tends to equate with quality in the minds of consumers, suppliers and not least commentators. It is reflected and encapsulated in the institutional league tables.

So there are three corollaries of this information problem.

The first is that prestige tends to substitute for quality as a means of distinguishing between institutions. I can only refer you to a well-known study known as the Rand Corporation study which found that institutions tend to divide into those which are pursuing prestige, and those which are trying to build a reputation for meeting student and employer needs. Prestige is often associated with resources, and also with successful performance in research, and if you doubt that, I refer you to the Times Higher's coverage of the RAE. Everybody knows that it's not just about the lolly – in fact the amount of lolly wouldn't be very great – it's about the prestige. This is what Robert Frank has called the 'winner-takes-all society'.

It follows therefore that increased stratification is an inevitable consequence of marketisation – and it isn't just stratification of institutions, it's also stratification of the social groups that they serve, with disparities in access if not exacerbated then certainly not helped by market activity. One can, incidentally, argue that the marketisation of the school system is also part of the problem. Other negative consequences include reduced institutional diversity (a process known as de-differentiation), increasingly divided institutions internally, and poorer value for money.

This last is particularly ironic because one of the claims for marketisation is that it's going to make for better use of resources. What you have, in important parts of the market, is positional competition. The introduction of price competition actually increases prices rather than reduces them, what John Douglass and Ruth Keeling call the 'Pricing Equals Prestige Rule'. I quote Bill Massy (I won't read it out, it's in your handout) as to what the effect of that is. But most importantly of all, the most dangerous implication of marketisation is the very clear damage to the implicit contract that higher education has with society: universities have a wide measure of autonomy in return for producing various public goods. The more they appear to be corporations, the more that autonomy is at threat. I quote Paul Gibbs: "As universities accept the notion of an economic market in higher education, they themselves become defined by the market and risk losing the function, as well as the trust, to question what is for what might be". So the first corollary of the information problem is the negative consequences for an effective, efficient and fair system that I have sketched.

The second corollary is the importance of regulation. I quote Jongbloed on this, and again I won't read it out, but (crudely) what he is saying is: if you really believe information can be a sound basis for student choice, then produce the information; if you can't, you may need to opt for supply side regulation to achieve that. In my view, instead of assuming that students know best (or would do if only the necessary information could be prised out of the system), and wasting resources on things like the National Student Survey, we should be putting our regulatory effort into ensuring (a) that

institutions are using their resources, including particularly their resources of research and scholarship, to give all their students the best possible learning opportunities and awards, and (b) that the information institutions put out is properly scrutinised for its veracity. We also need to improve aspects of academic practice, particularly student assessment. In that way, we can seek to protect our students from the risks of making bad choices, which is surely our public, as well as our professional, duty. Instead of trying to bring students from working class backgrounds, whom we presume have relative ignorance, up to the knowledge of middle class students, we have to ensure that no-one is short-changed through their experience at any institution.

Now, I know that the NUS is represented here today, so for the avoidance of all possible doubt (and I'm grateful to have the benefit of a camera, so that you can focus on me saying it!) I'm not opposed to giving students more information. I think they should have more information about things like class sizes, scheduled teaching hours, access to tutors, and things of that kind. Those are important but they don't in themselves tell you a huge amount about quality, partly because this is determined largely by factors that are too local and particular within an institution, but also because as I've said the whole point about higher education is that it's a jointly produced student experience, and what the students themselves bring to the party can be as important as other factors. Nor, incidentally, will the financial returns from attending any particular institution give much guidance; in both Britain and America even the average returns are quite small after allowing for graduates' background characteristics.

What we should not be doing is kidding ourselves, or them, that there is for every student one "best buy" which would provide them with an ideal higher education if only they (or we) could discover it. We should certainly take much more account of student feedback and opinions, but ultimately the only way to maintain quality and standards is through rigorous professional practice in a properly funded system, from which student surveys and institutional rankings are an unwelcome, unnecessary and in my view dangerous distraction. They may cause us to take our eye off the ball so far as quality is concerned. In other words neither information nor bureaucratic regulation is the royal road to quality improvement. We have to create the conditions through proper self-regulation by proper professionals.

My third and final corollary of the information problem is the need for a balanced system of funding. Over the past twenty years or so there has been an increase in the proportion of the cost of teaching met through student fees, and a reduction in the proportion going through block grant. Vouchers – where all the teaching funding goes via the student – would be a further step along this path. But if you accept the logic of the difficulties with information you will clearly see that such a system would be a backward step. As I've said, the problem with information is not differential access, but the fact that **no one** has access to the necessary information. If no one can determine relative quality, the more inputs to the decision making process, the better.

Therefore we do need student choice in the market, we do need regulation by the academic community, and we also need the state through the Government to play its part. We can't, I'm afraid, leave the academic community and the market to produce an efficient and equitable system. Since both fees and grants depend on numbers of students recruited, it is not as if, in the absence of a voucher system, institutions lack incentives to compete! I'm sure any institution represented here today would second that.

Before concluding by suggesting how we should move forward, can I make it clear, again for the avoidance of any doubt or misrepresentation, that I am not opposed to the application of the market to student education, to some degree of institutional competition for students, or to some significant student contribution to teaching costs. Higher education has always had a commercial side to it. Some degree of competition is good and indeed necessary for institutions. Huge working class taxpayer subsidies to students from middle class backgrounds **are** impossible to justify. Students **should** make a contribution to the cost of their higher education. Although students paying fees may behave like consumers, they may also take greater responsibility for their learning. In any case, I find it hard to see any rowing back from the position we have reached, particularly with the likely pressures on public expenditure that will arise when we finally know the toll of the rescue of the private markets from their catastrophic market failures. I still don't feel, I'm afraid, as a sometime City regulator, that our leaders fully understand what the City is about. Perhaps the continuing attachment to bonuses will finally enlighten them.

Let me conclude with my reform programme. It stems from the analysis I've presented, and I'm very happy to defend or justify it as best I can. There are eight conditions that I've set out in the handout:

- First of all, we need to have rigorous control of market entry, with particularly close scrutiny of private providers because of the clear risk that they might cream off otherwise profitable programmes. So we need to maintain and keep good control of market entry.
- Secondly, no further increase in the proportion of the cost of teaching to be met through the student fee. In my view that would be quite disastrous as we wouldn't then have a balanced system.
- Thirdly, no further price competition between institutions, either for teaching or for student support. We can already see the inequities that are being created in the market for scholarships and bursaries, where needs-based aid is gradually being edged out by merit-based aid, as we already see in America.
- Fourthly, resourcing differentials between institutions to be limited to those that can be objectively justified by local factors such as costs.
- Fifthly, a stronger regulatory system, with a proper system of institutional accreditation, closer peer review of qualification standards, and a stronger and more independent quality agency to

protect academic judgments and promote academic professionalism.

- Sixth, peer review-based research selectivity to continue but limited to areas where it is needed for strategic reasons. Research and scholarship should otherwise be funded pro rata to staff effort but scrutinised through accreditation, which would also look at the ways in which institutions link staff research and staff teaching.
- Seventh, close scrutiny of institutions' costs especially on things not directly related to their core functions of teaching and research and scholarship. (If you've had a chance to read my American report, you'll see the reported views of Richard Vedder, who was actually a member of the Spellings Commission.) I think higher education does have a problem because of the complexity and costs of its production function. It's very difficult to see productivity improvements in higher education which would enable the costs to be reduced greatly. However, by the same token I think that we do need to scrutinise institutions' costs, and I for one want to have very clear limits on what institutions could spend in promoting their product.
- Finally, and maybe tangentially, cost and income-based differentials in the compulsory sector of education should be tackled directly instead of made worse by spurious policies of choice and empowerment. I do find it quite extraordinary that the social mobility announcement by the Government appeared to think that widening participation can be done by giving state school pupils visits to universities – you might ask, what about the tax system?

I'm arguing that we should not be for pure competition, nor for pure state control. I think that what we need is a balanced system which: reflects the multiple purposes of universities and colleges, more diverse perhaps than ever; recognises the pressures on public expenditure and therefore uses that money to reduce unjustified, and societally dysfunctional, differentials between different institutions and different categories of student; makes the best use of necessarily limited information about educational quality; maintains competition for students (and some research funds); offers students the best chance of a worthwhile higher education; and therefore provides best value for the funds that they and other stakeholders invest in higher education. That is my reform programme; thank you very much.

Nicholas Barr

I am glad that this is not going to be a Punch and Judy debate, where I stand up and say "free markets are wonderful always and everywhere and government should stay out of it", and where Roger says "no role for competition, higher education should all be financed by the state". Roger has demonstrated convincingly the problems of a free market in higher education, a topic that I will also discuss. We agree that pure market systems are not the way forward. I shall take it that we also agree about

core objectives – raising the quality of higher education and widening participation. So we do not disagree about what we are trying to do, but about how to get there.

I would like to go through some background material, then talk briefly about lessons from economic theory and then about the strategy for higher education finance that I derive from that theory. If I have time I will also talk about policies to widen participation, and about efficiency, quality and quality assurance. At the end I shall respond briefly to some of Roger's more specific points. Like Roger, I am going to talk about how to pay for teaching, not the more difficult matter of how to pay for research.

Let me start with my first proposition – the world has changed. Higher education continues, as always, to be important to promote core values and for the pursuit of knowledge for its own sake; but unlike 50 years ago it matters today also for national economic performance and for individual life chances. Higher education is no longer merely part of the cultural life of the nation, it is also an important part of the economy.

The specific objectives of policy are widening participation, quality and efficiency. The debate gets clouded because ideology comes in at the wrong place. I shall argue that the balance between market and state in higher education is mainly a technical issue, about which the economics of information has a great deal to say. I am not in favour of markets in general, nor against markets in general – it depends on the commodity that is being considered. The right place for ideology is over things like widening participation. There, to be clear about my own value judgments, I am on the side of the students, and particularly on the side of students who ought to be going to university but do not. So my second proposition is that students matter.

Lessons from economic theory

With that by way of background, let me come to lessons from economic theory. Here we come to the core of Roger's and my disagreement. My third proposition is that competition helps students. The starting point is to ask whether competition is useful. The answer that economic theory suggests is that competition is useful when consumers are well informed. Where consumers are badly informed – inherently badly informed, as for instance with health care – the benefits of competition are dubious. I have just finished a large book on why competition amongst pension providers, for the same reason, is questionable. My view for higher education is that many students are savvy, streetwise consumers, a lot of information is available, and more can and should be made available. I think that Roger and I agree that quality assurance is important, and that good information is a central source of quality assurance (I will come back to that later). I suspect that we will disagree about the extent to which consumers of higher education are well-informed. Are all students well informed? No, they are not. Some are

better informed than others, and the students who are least-well informed disproportionately come from poorer backgrounds. So there is a real equity issue that needs to be addressed and, again, I will come back to that. If you ask the same question about school education – are schoolchildren well informed? – the answer is no. I think it is entirely consistent to be against too much competition in schools, which is my position, but to be in favour of competition in higher education. I do not regard those two positions as inconsistent.

The argument for competitive fees is that they bring in extra resources, and they create incentives to use those resources efficiently. Counter-intuitively, variable fees are also fairer. It seems to me outrageous that a student at Balls Pond Road Technical College should be forced to pay the same fee as one at Oxford. So that's the first lesson I would suggest: – competition benefits students. (There's international evidence on this that I'm happy to come back to but I don't want to overshoot my time.)

The second lesson is that graduates should share in the cost of their degree. Note that I say 'graduates', not 'students'. Roger and I agree: higher education creates benefits to society over and above benefits to the individual, and that creates a cast iron case for taxpayer support for higher education. However, higher education also confers very significant private benefits, and it is thus both efficient and fair that the beneficiary should share in the cost. But students are broke and their parents not always able or willing to help, so what is needed is a mechanism whereby higher education is free to the student, it is the graduate who makes the repayments – which brings us to student loans.

The third lesson from economic theory is that well-designed loans have core characteristics. First, they should have income-contingent repayments i.e. repayments calculated as a fraction of a person's income. The UK has had that system since 1998. Income-contingent repayments come into their own in times of financial turbulence, as at present, which is precisely why Iain Crawford and I spent ten years campaigning for them. A second key feature is that loans need to be large enough to cover fees and living costs. Thirdly, there is a series of nerdy, technical, boring but very important arguments about the interest rate on student loans that, again, we can come back to in discussion, although that aspect is not a primary part of today's debate.

The resulting strategy

So to me economic theory suggests three lessons: competition is beneficial, graduates should share in the cost of higher education, and student loans should be designed with various characteristics including income-contingent repayments. What strategy to achieve the objectives of quality and widening participation? I want to suggest a strategy with three elements.

The first element, paying for universities, is to have deferred variable fees. As I have said, variable fees bring in more resources and strengthen the incentive to use those resources efficiently. In my view they are fairer than any other method. The mistake to avoid is going too far too fast.

The second element in the strategy is student support. The NUS argues that higher education is a basic right and should therefore be free. "Higher education is a basic right" is a value judgment, and one that I support. But it does not follow that because something is a basic right it has to be free. Food is a basic right, but nobody argues that food should be free. But the NUS is reaching towards an important truth: higher education should be free *to the student*; it is the *graduate* who should repay. Hence loans should be large enough to cover all costs and should be available to everyone.

If the world consisted only of middle class students, if you introduced variable fees and income contingent loans, you'd have cracked the problem. But the world doesn't only consist of middle-class students, so that is where the third element in the strategy comes in: active measures to promote access – measures to raise attainment, to improve information and raise aspirations, and financial measures. Let me make the point that market forces, as Roger has said, can improve efficiency; markets do not in and of themselves have anything to say about an equitable distribution. The strategy I am talking about – fees plus loans – addresses efficiency. Widening participation addresses equity. The package as a whole, with all three elements, is more efficient and also fairer than a system of publicly financed, centrally planned higher education, and that is a statement that I am happy to defend in discussion until the cows come home.

What role for government in this system? This brings me to my fourth proposition: not a free market. Nobody who is knowledgeable about higher education has ever seriously campaigned for a free market in higher education. We are talking about a regulated market. Universities set fees, but subject to a fees cap. Governments continue to pay block grants. The balance between fee and block grant determines the strength of competition. Students apply to the institutions and courses of their choice.

Alongside those market forces there is a major, continuing, and permanent role for government

- to provide taxpayer support for higher education;
- to regulate the system through a fees cap and by ensuring that there is effective quality assurance;
- to set incentives, for example, larger subsidies for subjects that the government wishes to encourage;
- to ensure that there is a good loan scheme in place; and
- to promote policies that widen participation.

This then gets us to the USA and the question of what is wrong with the US system. The bottom line is that it is not a system, but a ragbag of different

institutions. Referring back to the strategy just outlined, on the first element, variable fees, I think the US has got it right. Fees are largely a matter for universities. But I think the US has gone too far because fees are completely unregulated. If you have a genuinely competitive market, there is no need to regulate price. I have argued that higher education is competitive, particularly over teaching, but some universities, for example the US Ivy Leagues, in addition to selling teaching are selling to prospective students access to their network of peers. In that regard, these universities have an element of monopoly power and that, in my view, is why the Ivy Leagues in the US are able to charge such extraordinarily high fees. They don't distribute the profits to their shareholders, because they don't have shareholders. They have gold-plated PCs (to exaggerate). Price and quality are both inefficiently high. It is necessary to have regulation of fees, which the US does not have.

On the second element, loans in the US are based mainly on the model of conventional loans rather than having income-contingent repayments, which are only embryonic in the US. There is a problem with interest rate subsidies and a problem about adverse incentives for the collection of repayments.

And on the third element, there is a lot of money going into widening participation, but it is fragmented and incredibly complex. If you have a boring three months you want to fill, try and understand the US system of student support. I haven't. I won't! It's even worse than the UK pension system, and that's saying something. Separately, pro-access measures in the US are largely targeted on 18+, when in reality the roots of the problem are much earlier.

Widening participation

Let me come back to the core objectives of widening participation and quality and efficiency. What happened to applications after our reforms in 2006? They went up. Ah, you might say, but that is mainly middle class students; but if you look at applications by socio-economic group, applications went up for *each* group. The lesson is that this happens because loans cover living costs *and* fees, so that higher education is free to the student. I would have predicted before 2006 that variable fees covered by income contingent loans would not harm access, but would not help either. The things you need to do to widen participation need to happen earlier than the age of 18.

What does determine participation? There are people in the audience much more expert than I, who will probably cringe at my crude over-simplifications, but I think some simple numbers give powerful messages. If all else fails, look at the evidence. If you ask the question: where are the biggest social benefits to public spending on education, the answer is that it is on the tinies. But where is most public money spent – on older students, university-age students. The juxtaposition of those two sets of facts immediately tells you that there is an efficiency issue.

Who gets the best GCSE results? The children of professionals? Who stays on after 16? Those with the best GCSE results. That's where access fails. Access fails when people get poor GCSE marks and leave school. Who goes to university? Those with the best A level results. If I am allowed one single diagram it is [slide 28]. The top two bars of the histogram show participation in higher education for students with 25 A level points or more. The top bar, the light blue one, relates to students from middle class backgrounds, the dark blue line to students from poorer backgrounds; there is virtually no difference in the percentage of each group who go to university. What this diagram says is: get good A levels and you've cracked it. Control for attainment and you have largely dealt with participation. This diagram is aggregate and does not distinguish between different types of universities, so I do not want to oversell what it says. The key point I want to make is that if you are serious about widening participation – and I am very deeply serious about it – participation should be thought of much more as a 0-18 problem than as an 18+ problem.

What policies widen participation? It is necessary to address the problems of low attainment, which means education before age 18, in particular early child development. Access fails also for lack of information and aspiration, so a second element in a pro-access policy is action to improve information and raise aspirations. I disagree with Roger; I think that mentoring by students visiting schools and bringing pupils from inner city schools to universities is an important activity. Finally you need money measures, but broader than grants for university students. One of the best things the government has done is to say "if you get an Education Maintenance Allowance and then get a place at university we guarantee you will get a grant" – there is continuity, and that's an important signal.

Efficiency and quality

I have argued that competition is beneficial, but alongside quality assurance. There are two ways of organising quality assurance, and again I suspect there are many people here who know more about it than I do. One approach is inspection. [Slide 35] is one of my research activities in October 1999. These are the 14 filing cabinets in LSE's largest committee room just before the meeting of the quality assurance group who looked at the teaching of politics at LSE. There are another 14 filing cabinets for social policy, another lot for geography, et cetera. That is not a good way of doing things, and a method that we have fortunately moved away from.

An alternative approach – and here I think Roger and I do disagree – is to say that the best sort of quality assurance is to have well informed consumers. That approach does not work well in highly technical areas like medical care, but is useful in higher education. A bright 16 year old will ask: Will I be well taught? Will it be fun? Will I get a good job? So an important

part of quality assurance is mandatory publication of data that answers those questions, for example:

- evaluation by students and others of teaching quality,
- surveys of the student experience more broadly, and
- next destination statistics (which is a market test of employers' views of quality).

Universities should be required to publish these data on their external websites.

Some of these variables are hard to measure, but that is not an argument against the approach. We need to do some serious work on how to measure these things. It is also necessary to have sound regulation. The variables should have common definitions – when you look at your credit card statement, the interest calculation is done in the same way whatever your credit card, by law, to create comparability. It is also necessary to audit the data universities publish. Roger said that universities will cheat, and you bet they will! So one of the important roles for a quality assurance agency is to make sure that the information that universities publish is accurate.

The philosophy behind this approach is the opposite of one size fits all. Instead it concentrates the bulk of quality assurance resources where they are most needed. The system has three strategic elements:

- mandatory publication of relevant data;
- "light touch" self-evaluation by institutions, using criteria agreed with the quality assurance agency (those two points interact, as light touch works well only when you have fairly well-informed consumers – quality assurance and information are both essential); and
- concentrated assistance for institutions with significant quality problems.

Specific responses

Let me come to my specific responses to some of the things that Roger has said. He started off with a quote from one of my heroes, Arthur Okun, which I was delighted to see because it is a quote that I use at the head of one of the chapters of my book on the welfare state, first published in 1987. It is interesting to read the quote slightly more fully. "[The] market needs a place, and the market needs to be kept in its place. It must be given enough scope to accomplish the many things it does well. It limits the power of bureaucracy... responds reliably to the signals transmitted by consumers and producers... most important, the prizes in the marketplace provide the incentives for work ethic and productive contribution... For such reasons I cheered the market: but I could not give it more than two cheers. The tyranny of the dollar yardstick restrained my enthusiasm."

My first comment is that the US system is a straw man. It shows the ill-effects of under-regulated markets with no strategic thinking. But that is not an argument against well-regulated markets as part of an explicit overall strategy.

My second comment is an economist's response: resist the temptation to corner solutions. A corner solution is "all market" or "all state", and a lot of non-economists tend towards corner solutions. Roger doesn't; he says that there is a place both for markets and planning. But people still tend to polar extremes. One corner solution is market forces. Unrestricted markets – I'm on camera and you may quote me on this – are not a good fit for higher education, but it does not follow that reliance on the other corner solution, central planning, is the right solution. My argument is for market forces with substantial, carefully-designed and carefully-chosen intervention through regulation and subsidy. Actions to improve the quality, comparability and quantity of information available to students are a central element both in student choice and in quality assurance.

Can students choose well? In a way this is the core of our dispute. Roger argues no. That is an absolutely respectable argument, it is one that I make for healthcare and to some extent for pensions. It is ultimately a dispute about empirical magnitudes. I think students are well-informed, or the assumption that they are well-informed is more true than the opposite. Students can become sufficiently well-informed for competition to be useful. Other elements of market forces, for example the monopoly element in higher education needs to be fixed, and the fix is to have some sort of regulation for fees, i.e. a fees cap. A further element concerns who should pay. As Roger said, in a pure market system the student pays the lot. That would be crazy; but if the taxpayer pays the lot, that, too, is inefficient and inequitable. Costs should be shared.

What role for market forces? I would say a considerable one. Roger mentioned the argument that higher education is a multi-dimensional experience, there is no bottom line, you are not sure afterwards what you've got – that is all true. But that is true of very many things. You do not go to a restaurant just for the quality of the food but for a whole range of things; very often you do not know until afterwards whether the place was as good as it was said to be. When you go on holiday, it is not just the beach but also many other things. So in those circumstances you have regulation where necessary – hygiene laws in restaurants – but other than that you leave it to the consumers and producers, and to competition. Now, you can argue that higher education is more important than restaurant meals and holidays, and that is true, not least because of the long run costs of mistaken choice. So it is important to adopt policy that reduces the long run costs of any mistaken choice – which brings us back to quality assurance.

Conclusion

The bottom line is that the difference between Roger and me is, I think, more one of emphasis than one of principle (but it is quite a big difference in emphasis). What I have said is not intended as an attack on public funding, which should remain a permanent part of the landscape. Reform should not create a free market but a regulated market. Students should get their higher education free – it is graduates who repay. I think the economics of reform is straightforward. I was talking to Martin Wolf of the Financial Times at a conference and he looked at me, shrugged his shoulders and said “But it’s so obvious” – to an economist it is. But the politics are horrible, I completely accept that.

My final point: going back to a system with more central planning and one that relies more on the taxpayer would harm the quality of higher education and, counter-intuitively but very importantly, would work against widening participation. If there is one reason above all why I am in favour of competition, it is that it makes possible redistributive policies that assist widening participation.

Let me leave it there – I think this is a serious debate, and I commend Bahram and his team for coming up with this topic, because I think it is one of the core issues to think about. Thank you very much.