THE OPERATION OF THE MARKET IN HIGHER EDUCATION 1: OPPORTUNITIES AND CONSTRAINTS, EXPERIENCE AND IDEOLOGY

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Markets will enrich the universities and incentivise the students (Kealey, 2007)

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, 2004b: 180)

There is a place for the market but the market must be put in its place (Okun, 1975: 19, quoted in Kirp, 2005:7)

Argument

1 The central policy issue in UK higher education is the degree of marketisation that should be created, beyond what has already occurred.

2 In determining this we should take account of experience in other comparable systems, hence the report on America.

3 Whilst it has much that is 'sui generis', the US system does demonstrate both some of the strengths and some of the weaknesses of markets as applied to higher education.

4 If we wish to capture the benefits of market competition, and avoid or minimise the detriments, this experience, together with a survey of the literature, suggests that we should be very cautious about any further moves down the marketisation route.

Preliminaries

1 I am assuming that in spite of the evidence about private market failures that is staring us in the face, there will be no early 'read across' to the public sector. As an aside, I still do not think our political masters have really 'got it' so far as the City and its depredations are concerned.

2 We are mainly talking about a market in undergraduate student education, though much of what is said also applies 'mutatis mutandis' to other higher education markets such as research.

3 Only a few people are arguing for a fully marketised system. Nor do many people seriously think we can revert to life before variable fees. The issue is the balance between market and non-market (Wolf, 1993) coordination, and the degree to which market forces should be constrained by public policy.

A Market in Student Education

It might nevertheless be useful to start the discussion by outlining what a genuine market in student education might look like. Its main features would include:

1 Little or no regulation of market entry (so lots of competition including from private and 'for profit' providers)

2 No regulatory limits on the prices (fees) charged or the numbers enrolled (providers both enter and leave the market)

3 Cost of teaching met entirely through charges (fees), which approximate to average costs (rather than through a combination of fees and institutional grants)

4 Cost of fees met from users' own resources (no subsidies from the taxpayer)

5 Users decide what, where and how to study on the basis of information about the price, quality and availability of relevant programmes and providers.

Those favouring such a system usually point to benefits in terms of (a) greater effectiveness and responsiveness in meeting user needs, with greater flexibility, innovation and openness to change (b) greater efficiency in the use of resources (see eg Massy, 2004). They also argue that by leveraging private funds, marketisation has increased the overall quantum of funding in higher education (eg Geiger, 2004a). This is something which it is impossible to prove. In any case it does appear to be the case – at least to judge by US experience – that marketisation increases overall cost (the reasons for which will shortly become clear). Finally, market advocates do not usually claim greater equity but argue that this is for public policy to deal with eg through the tax system. They accept a limited regulatory regime.

Limitations of the Market Model

Although this is essentially a model, it isn't far from what some advocate, and many others believe we should be working towards: it isn't just a 'straw man'. We therefore need to be aware of the main limitations:

1 The model assumes that all or most of the benefits accrue to individual users. But higher education confers a mixture of private and public goods. Without public subsidy these would be undersupplied. So even in America, the great bulk of financial support comes from public sources (either through direct funding of institutions and students or indirectly, through loan guarantees, tax breaks etc).

2 Higher education plays a key role in accrediting knowledge, especially the knowledge needed for the professions (hence the crucial importance of the key profession, the academic profession, the quality and health of which is almost entirely neglected by policy makers). As a result, market entry is regulated in most systems.

3 It is simply impossible to provide the information about product quality that a properly functioning market requires. This is the central problem for those who argue for greater marketisation of student education.

The Information Problem

Markets cannot discipline price without meaningful information about quality (Massy, 2004: 31)

All students are entitled to high quality teaching, and to the best possible information to help them make the right choices about what to study and where...Student choice will increasingly work to drive up quality, supported by much better information (Department for Education and Skills, 2003)

Wishing for perfect information is not an effective policy (McPherson and Winston, 1993: 83)

The one thing that economists seem to agree upon is that market competition confers benefits only where both consumers and producers are well-informed. Applied to student education, the market theory of information requires (a) that students and others are able to make and act upon judgements about the relative quality of the programmes and awards offered by different institutions (alongside information about price and availability), and (b) that institutions are able to react to those judgements and actions by adjusting price and/or quality so as to maintain or increase demand for their product.

The Market Theory of Information

The theory would require each and all of the following conditions to be met:

1 There would need to be valid and reliable information about product quality to enable proper comparisons to be made

2 This information would need to be available in a timely, accessible and equitable form

3 It would need to be tailored to the wants, needs and circumstances of each individual user

4 It would need to be interpreted by each user in a rational manner

5 Institutions would need to be able to react appropriately to those judgements and actions

6 Someone would have to pay for it.

It also assumes, of course, that providing this information is the most cost-effective and powerful way of protecting quality.

However, meeting these conditions:

1 Would really require a national curriculum with national tests administered by national examiners. Yet there is a huge diversity in the system. Even in traditional subjects like History there is a huge range of course titles and content often with very little or no overlap. There is also a huge range of assessment practices (Yorke, 2008), never mind the longstanding and serious difficulties we seem to have in assessing students effectively. We should also note that the student is him/herself an important determinant of the quality of what they experience, and that this is not only about what goes on in formal settings. Finally, we should bear in mind that by definition most of this information comes from institutions, and that market competition provides them with every incentive to cheat, a phenomenon of which there is all too much evidence (eg Farrell and van der Werf, 2007; Watson, 2008)

2 Would mean the information having to be available in advance. Economists sometimes make a distinction between 'search goods' and 'experience goods', the difference being that the customer can only judge the quality of experience goods after purchase, as they are consumed But higher education is actually a '**post-experience** good'(Weimer and Vining, 1992), the effects of which may not be discoverable until well afterwards and even then may not be traceable to any particular educational experience. The information has also to be accessible (to the 'two clicks' generation) and fair (when there is plenty of evidence that students from less favoured backgrounds are even more disadvantaged in making judgements than those from more favoured ones).

3 Would need to be tailored to individual students, which increases the difficulty and cost. The problem with so many attempts to assess student learning in the aggregate is that they make no allowance for students' background characteristics, including their acquired intellectual and social capital. Of course, students may not be the only users. What happens if their judgements conflict with those of other stakeholders: parents, employers and other 'funding bodies' (Kivisto and Holtta, 2008)?

4 Would need to be interpreted and used in a rational manner. Yet all the evidence is that students are no more rational than other consumers in making their choices (Reay, David and Ball, 2005).

5 Yet if students don't act rationally, how can institutions do so?

6 Who pays, and what other activities and potential benefits are foregone?

The position has been well summarised by the American economist of 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* (Winston, 1999: 15)

In other words, relying on information to discipline price is a blind alley so far as student education is concerned: there are simply too many variables (Brown, 2007), though it is of course central to the efficiency argument for variable fees (and what other argument is there?).

There are three important corollaries of this seemingly insuperable problem with information. These are (a) the role of prestige as a substitute for quality, and as the driver of the system (b) the necessity for regulation (c) the importance of balanced funding.

The Pursuit of Prestige

The phenomenon that consumers may not have adequate direct information about product quality is not unknown in economic literature. McPherson and Winston (1993) suggest that in these circumstances buyers will seek, and suppliers will try to provide, indirect or symbolic indicators of quality. In higher education, it is prestige that often comes to substitute for quality in the minds of consumers, suppliers and commentators. It is encapsulated in, and reinforced by, institutional league tables and rankings (Brown, 2006a).

The Rand Corporation study (Brewer, Gates and Goldman, 2002) suggests that universities and colleges tend to divide into those seeking to acquire or maintain prestige, and those trying to build a reputation for successfully meeting student and employer needs. Prestige is usually associated with resources (Geiger, 2004b; Watson and Bowden, 1999), with large variations between institutions, in both the US and the UK, variations which are getting even larger. The drive for prestige comes from within the academy, with successful research performance the key (witness the 'feeding frenzy' that accompanied the recent RAE results). But it is not only universities and professors who are pursuing prestige: students and employers are also doing so in what Robert Frank has christened the 'winner-takes-all society' (Frank and Cook, 1995)

It follows that increased stratification is an inevitable consequence of marketisation. This is true not only of the institutions but also of the social groups they serve (Astin and Oseguera, 2004; Leathwood, 2004), with disparities in access if not exacerbated then certainly not remediated by market actions. As my US report shows, there is certainly plenty of evidence that, as in the school system, enrolments are becoming increasingly stratified by socio-economic background ie class. There is also evidence (Archer, Hutchings and Ross, 2003) that in Britain this in itself – the tendency for working class students to be concentrated in less prestigious institutions – is a powerful barrier to increased participation.

Other negative consequences of marketisation include reduced institutional diversity, increasingly divided institutions (with increased differentiation of activities, structures and personnel), and poorer value for money. This last is of particular importance because it confounds the basic rule of economics that greater competition leads to better use of resources. The reason is of course that what you have here, at least in important parts of the market, is positional competition (Hirsch, 1976). Hence the introduction of price competition to student education actually **increases** prices rather than reduces them, what John Douglass and Ruth Keeling (2008: 4) call the 'Pricing Equals Prestige Rule'. To quote Bill Massy again:

In the US, elite institutions exploit peer effects and price-quality associations to boost their own spending and provide a pricing umbrella for other universities and, indeed, for state governments that wish to shift funding priorities away from higher education. Worst of all, information shortfalls prevent the market's invisible hand from driving incentives for quality improvement. We are caught in a vicious circle that produces an arms race in spending without regard to value added. This encourages mission drift, which actually inhibits education quality improvement. (Massy, 2004: 31; cf Dill, 2005 and many others)

Finally, and perhaps most seriously of all, there is the clear risk of damage to higher education's traditional 'contract' with society, whereby universities have a wide measure of autonomy in return for their production of various public goods, with a concomitant threat to their ability to control or influence the academic agenda (Brown, in preparation). To 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'* (Gibbs, 2001: 93)

The Importance of Regulation

The second main corollary of the information problem concerns regulation. Jongbloed (2006: 25) puts this rather well:

If individuals are fundamentally rational and the problems are...(uncertainty, imperfect information), the potential role for policy would be to try to address those market imperfections by helping students to make the decisions they want. If, on the other hand, students are fundamentally irrational then giving them more information or eliminating market imperfections will not necessarily improve outcomes. In the latter case there may not be a need to strengthen consumer choice in higher education , and it might be better to, for example, let educational authorities offer the programmes they deem best for students rather than let student preference drive programme selection.

In other words, 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 all institutions are using their resources, including their resources of research and scholarship, to give all their students the best possible learning opportunities and qualifications, and (b) that the information institutions put out about themselves and their offerings is rigorously scrutinised for its veracity. We also need to put more effort into improving various aspects of academic practice, particularly student assessment. In this way, we can do our best to protect our students from the risks of making bad choices, which is surely our public, as well as our professional, duty. This is especially important because of the difficulties in switching course or institution.

Let me be quite clear. I am certainly not against providing students with more information about things like class sizes, scheduled teaching hours, access to tutors, assignment return times, assessment regimes and the like. These are all important but in themselves they won't tell you a huge amount about quality, partly because this is determined largely by factors that are too local and particular to be susceptible to close institutional control (Pascarella and Terenzini, 1991, 2005) and partly because (as we have already noted) so much depends on what the student him/herself brings to the party. Nor, incidentally, will the financial returns from attending any particular institution (in both Britain and America even the average returns are quite small after allowing for graduates' background characteristics: Chevalier and Conlon, 2003; Pascarella and Terenzini, 2005).

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 optimal higher education if only they (and 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 even a dangerous distraction. This is because they may cause us to 'take our eye off the ball' so far as improving quality is concerned, diverting into ratings improvements resources and effort that should go into raising quality. In other words, neither increased information **nor** bureaucratic regulation is the 'Royal Road' to quality: the central issue is how, in conditions of greater competition, to create the necessary incentives, 'positive' and 'negative, for effective professional practice.

Balanced Funding

The third main corollary of the information problem is the need for a balanced system of funding. Over the past twenty years there has been an increase in the proportion of the cost of teaching funded through the fee, and a corresponding reduction in the proportion that comes as institutional 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 readily see that such a system would be a backward step. The problem with information is not the notion of asymmetrical access which features in the economics textbooks but the fact that no one has, or can have, access to the necessary information.

In these circumstances, if no one can provide a definitive view on relative quality, the more inputs to the decision making process, the better. This incidentally includes the Government since someone has to protect the public interest in having an effective, efficient and equitable system, and that can't just be left to the institutions and the market (Brown, 2006b) Since both fees and grants are tied to the numbers of students recruited and retained, it is not as if institutions lack an incentive to compete!

Before concluding by suggesting how we should move forward, let me also make it clear, for the avoidance of any doubt or misrepresentation, that I am certainly 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 (Massy, 2004: 17). Some degree of competition is good and indeed necessary for institutions. Huge working class taxpayer subsidies to middle class students **are** impossible to justify. Students should make a significant contribution to the cost of their 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 from the current economic crisis.

A Balanced System - Description

So what, finally, would be my reform programme? If you accept what I have said about both the benefits and the limitations of a market approach to student education then the following may be appropriate:

1 Rigorous control of market entry, with particularly close scrutiny of private providers because of the risk of 'creaming off' 'profitable' subjects or courses

2 No further increase in the proportion of the cost of teaching met through the fee

3 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, even these are as yet only a pale shadow of what has been happening in the US)

4 Resourcing differentials between institutions to be limited to those justified by 'objective' factors eg local costs

5 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

6 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 closely at how institutions ensure that staff research informs teaching and vice versa

7 Close scrutiny of institutions' costs especially on things not directly related to their core functions of teaching and research and scholarship

8 Cost and income-based differentials in the compulsory sector of education to be tackled directly instead of made worse by spurious policies of choice and empowerment.

A Balanced System - Advantages

In short, a balanced system which:

1 reflects the multiple purposes of universities and colleges

2 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)

3 makes the best use of necessarily limited information about educational quality

4 maintains competition for students (and some research funds)

5 offers students the best chance of a worthwhile higher education, and therefore

6 provides best value for the funds that they and other stakeholders invest.

Thank you for listening to me.

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