THE OPERATION OF THE MARKET IN HIGHER EDUCATION : 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, 2004: 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.

2 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.

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

A Market in Student Education

Main features:

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.

Limitations of the Market Model

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)

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

The market theory of information would require each 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.

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)

Corollaries of the Information Problem

1 The pursuit of prestige

2 The importance of regulation

3 The need for balanced funding

The Pursuit of Prestige

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)

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

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.

The Need for Balanced Funding

A Balanced System – Description

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

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

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

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 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.