

# Two sides of the same coin? Brexit and future student demand

Nick Hillman, HEPI Director

August 2019

HEPI Policy Note 15

## 1. What Brexit means for student demand

A few months after the Brexit referendum, HEPI – along with Kaplan and London Economics – published the most detailed piece of work that has yet appeared on likely future demand for UK higher education from overseas.<sup>1</sup>

We had to make some ‘heroic assumptions’, in the memorable words of one vice-chancellor who read the report. These included:

- assuming EU students entering the UK to study after Brexit will pay full international fees, which are typically higher than the fees levied on home and EU students; and
- assuming all EU students in the UK will be excluded from subsidised loans.

As yet, there is nothing to assume these guesses were wrong. In the dying days of Theresa May’s Government, Ministers refused to rule out the possibility of higher fees and an end to loan access for future EU students.<sup>2</sup>

The legality of an alternative approach, in which EU students would continue to be charged less than non-EU students even after the UK has departed the EU, is unclear – and, presumably, especially so in the absence of a

deal and a transition period with the other 27 EU members. Moreover, even if it were legal to levy higher fees on incoming students from EU countries after the UK has left the EU, it could be morally challenging to continue charging people from developed European countries less than people from developing nations.

Our research recognised not all higher education institutions have the same type of demand. It categorised institutions into four different groups, according to a typology originally set out by the academic Vikki Boliver.<sup>3</sup> Institutions with high demand and limited appetite for growth could be expected to continue filling their places even after increasing fees for EU undergraduates.

Another original aspect of the research was that it factored in a (10 per cent) decline in the value of the pound on the back of the referendum result. On the day after the referendum, the pound ‘suffered a jaw-dropping plunge’.<sup>4</sup> In IG’s words, this was the pound’s ‘largest intra-day collapse in 30 years’.<sup>5</sup> At the time of writing, Sterling has never recovered its pre-referendum value.<sup>6</sup> Our work recognised the decline in the value of the pound made the UK relatively cheaper compared to its main competitors for international students.

1 The abridged version is available at <https://www.hepi.ac.uk/wp-content/uploads/2017/01/Hepi-Report-91-Screen.pdf> and the full version is also available on the HEPI website.

2 <https://hansard.parliament.uk/commons/2019-04-29/debates/F8AD07F5-D5FE-4ED2-837B-D2B109834AB8/TuitionFeesEUStudents>

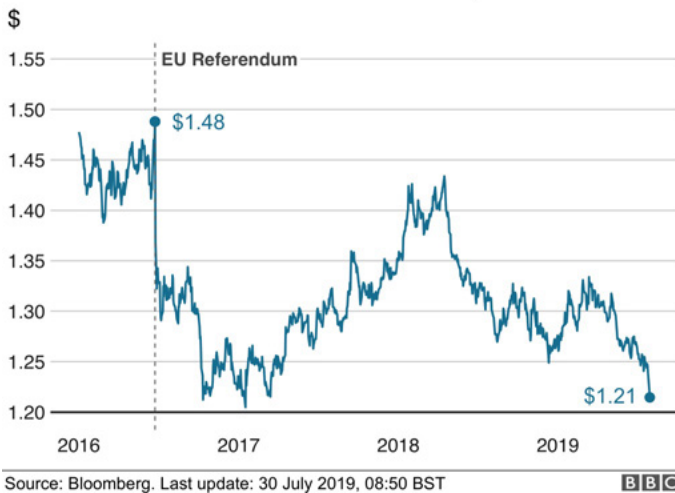
3 <https://www.tandfonline.com/doi/abs/10.1080/03054985.2015.1082905>

4 <https://www.theguardian.com/business/live/2016/jun/24/global-markets-ftse-pound-uk-leave-eu-brexit-live-updates>

5 <https://www.ig.com/uk/financial-events/brexit/value-of-the-pound-since-brexit>

6 <https://www.bbc.co.uk/news/topics/cx250jmk4e7t/pound-sterling-gbp>

## Pound vs US dollar since January 2016



Our headline results suggested that, after Brexit, there could be around:

- **31,000 fewer incoming EU students each year (-57%), representing a loss of fee income of £40 million, as a result of the changes to fee and loan entitlements; and**
- **20,000 more non-EU students (+9%) and EU students (+10%) each year, representing an increase in fee income of over £225 million, as a result of the change in the value of the pound.**

Overall, putting these two separate results together, the work predicted a net drop of roughly 11,000 incoming students but over £185 million more fee income for institutions, as all incoming students would then be paying the full international fees.

Importantly, as all incoming overseas students would have to find the money to cover their fees (and living costs) upfront, the numbers also suggested there might be less diversity among the overseas students who did enrol in UK universities.

These numbers have been widely accepted. Nothing that has happened since we published the work in early 2017 has suggested they are anything other than the best sort of predictions that can be made. So repeating the work today could be expected to produce similar results.

But the level of demand for UK higher education after Brexit depends at least partially on the behaviour of the higher education sector and public agencies in maintaining and improving that demand.

The level of demand also depends upon geopolitics, media coverage and factors like league table positioning. It is next to impossible to predict the impact of all such factors.

## 2. Why what we know might be wrong

There is one historical precedent that suggests our prediction of a large decline in the number of incoming students after Brexit may be too pessimistic. In the early days of Margaret Thatcher's first Government, the decision was taken to remove subsidies for students coming to the UK from countries outside what was then the European Economic Community (EEC).<sup>7</sup>

This was deeply unpopular. The Opposition's education spokesman, Neil Kinnock, said the policy was 'heartless and brainless', accused Ministers of 'innumeracy, insularity and insensitivity' and condemned the policy as 'clumsy, arbitrary, ill-advised and misinformed'. He claimed the Government's 'morals with regard to this policy are those of a scorpion'.<sup>8</sup> He also noted the policy had been universally condemned:

*It is apparent that the policy has not a single friend. We hear nothing but continual criticisms—some extremely bitter and loud—of the Government's policy from the Royal Commonwealth Society and the British Council to the Association of Navigation Schools, from the Committee of Vice-Chancellors and Principals of the United Kingdom Universities and the Committee of Directors of Polytechnics to every university, polytechnic and college of higher or further education, every education trade union and every students' union.*

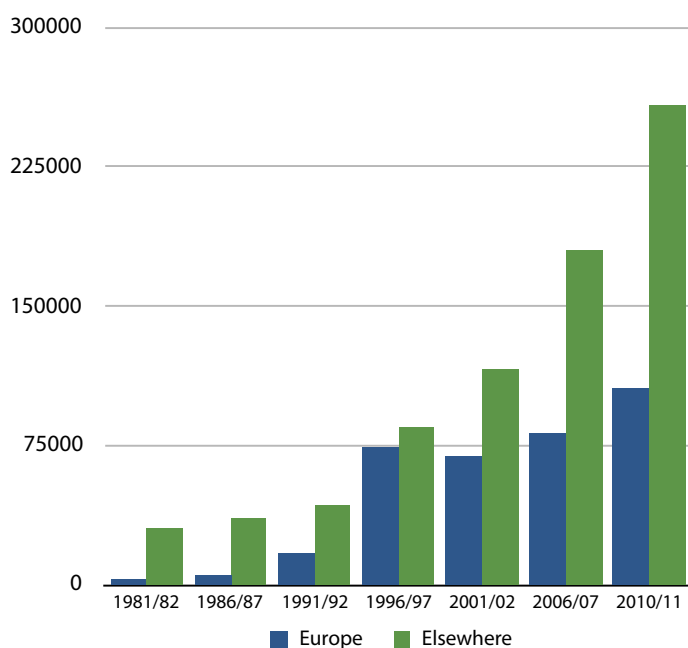
<sup>7</sup> In truth, the subsidy had already begun to be whittled away: in the 1960s, a Labour administration first introduced differential fees for international students; and in the 1970s, a later Labour administration increased them. See John Carswell, *Government and the Universities in Britain: Programme and Performance 1960–1980*, 1986

<sup>8</sup> <https://api.parliament.uk/historic-hansard/commons/1980/jun/10/university-financing>

The increase in fees was from £940 a year in 1979 to a minimum of £2,000 for arts undergraduates and £3,000 for science undergraduates in 1980. Substantially raising fees for international students was seen as the UK shutting itself off from the non-European parts of the world. Kinnock even claimed ‘the Secretary of State for Education and Science is acting as the registrar for the Patrice Lumumba university in Moscow.’ Some people believe the change in fees for international students was so significant that it marked the starting point of the marketisation of higher education.<sup>9</sup>

Initially, the number of overseas students fell and then the number of European students grew faster than the number of other international students. But, in time, the broad consensus was disproved. The change in fees set the ground for an explosion in international students. UK higher education institutions came to like charging international students the true economic cost of educating them – and, often, a whole lot more. In 2017, an award-winning HEPI paper showed how every international student in the UK contributes an average of £8,000 to research.<sup>10</sup>

### Full-time university students from overseas



Source: Hilary Perraton, *A History of Foreign Students in Britain*, 2014, p.123

9 Roger Brown and Helen Carasso, *Everything for Sale? The Marketisation of UK Higher Education*, 2013

10 <https://www.hepi.ac.uk/wp-content/uploads/2017/11/HEPI-How-much-is-too-much-Report-100-FINAL.pdf>

The extra resources paid for agents to find potential students as well as for cross-subsidises for research, boosting the standing of our universities. The additional prestige so conferred in turn attracted yet more international students, completing a virtuous circle that remained in place, at least until the Coalition Government in office from 2010 sought to dampen demand from international students.

Back in 1980, the Government Minister had predicted some increase in international students, but it is unlikely that even he foresaw the scale of growth that was to occur: ‘I welcome the approach of those universities which, in recent days, have seen this as an opportunity to encourage more students from overseas to come here, freed from the shackles of the diminishing quota with which they were faced.’

There is a big difference between the row in 1980 and now. Then, concerns were expressed over treating people from rich European countries more generously than people from poorer non-European countries. Kinnock said: ‘The Government’s international posture is characterised by imperial measures of generosity to the rich and powerful—whether the United States of America, the EEC or the OPEC nations—and by mean-minded parsimony towards the weak and poor.’<sup>11</sup>

The Government of the time responded by outlining a powerful defence of European reciprocity that still resonates:

*We have agreed that EEC students should be charged home fees. The reasons are simple and threefold: first, we are demonstrating our acceptance of the principle of student mobility within the EEC. Secondly, a draft resolution has already been tabled which will require individual countries to agree to similar fees being charged throughout Europe. Thirdly, as the hon. Gentleman fails to realise, we are operating on a reciprocal basis with Europe. It is the one area of the world that has more of our students than we have of theirs.*

11 <https://api.parliament.uk/historic-hansard/commons/1980/jun/10/uni-iversity-financing>

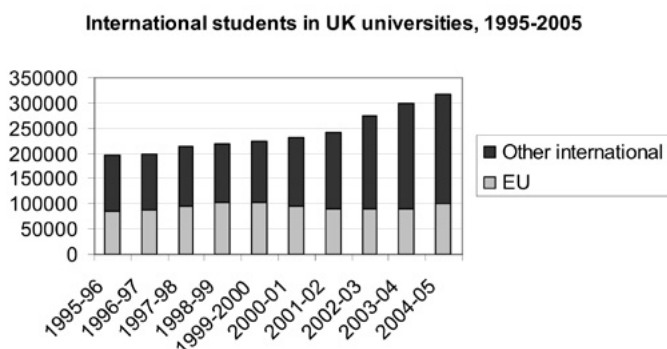
Today, the fees for EU and other international students look set to match one another again, but at a high rather than a lower level – and the two biggest political parties have swapped roles.

Whereas in 1980, the Conservative Government drove a firm wedge between students from outside the EEC and those from other EEC countries, now they seem set on erasing the distinction. Back in 1980, Labour complained about treating fellow Europeans more generously than others but now they share the concerns of many university staff about EU students being charged the same as other overseas students and have warned: 'It is not in our interest to build walls between our world-class universities and our nearest neighbours.'<sup>12</sup>

### 3. How institutions could be affected

While international student numbers were freed to grow by the change to funding in the early 1980s, students from other EEC countries continued to be subsidised by UK taxpayers, being treated like home students for teaching costs.

As a result, their numbers stagnated. The freeze in students from other EU countries is shown vividly in the chart below, taken from an old HEPI publication.<sup>13</sup>



This freeze was not just a consequence of official policies; it became official policy too. The growth in the number of home / EU students was explicitly restricted

12 <https://hansard.parliament.uk/commons/2019-04-29/debates/F8AD07F5-D5FE-4ED2-837B-D2B109834AB8/TuitionFeesEUStudents>

13 <https://www.hepi.ac.uk/wp-content/uploads/2014/02/32Economic-effects-of-international-student-summary.pdf>

by policymakers via the strict student number controls applied until recently. As a result, new EU students filled places that in theory might have gone to local students.

Student number controls have since disappeared in England but there continue to be more than two students from non-EU countries for every one that comes to study in the UK from another EU country (and despite an influx from newer EU member states in recent years). In 2017/18, there were 2.3 million students in the UK and 320,000 came from non-EU countries overseas with just 140,000 from other EU countries.<sup>14</sup> (In the 2019 UCAS application round, the number of EU applicants has risen by 1 per cent but those from outside the EU is up by 8 per cent.<sup>15</sup>)

Institutions foresee the considerable growth of students from non-EU countries continuing, collectively forecasting an increase of over 56,000 by 2022, or 20% (although the Chair of the Office for Students has complained about 'over-optimistic student recruitment forecasts').<sup>16</sup> Meanwhile, in an *International Education Strategy* published in March 2019, the Government adopted 'an ambition to increase the numbers of international higher education students studying in the UK to 600,000 by 2030.'<sup>17</sup>

Back in 1980, the defence of charging non-EEC students more rested on the fact that UK higher education would continue to seem attractive to people from overseas, due to the tendency of UK universities to have shorter courses, lower drop-out rates and a better staff-student ratio. They might also have chosen to focus on the attractiveness of learning in English. For whatever reasons, UK universities did indeed grow in popularity and prestige after fees rose.

14 <https://www.hesa.ac.uk/data-and-analysis/students/where-from>

15 <https://www.ucas.com/corporate/news-and-key-documents/news/all-most-four-ten-young-people-england-apply-university-new-record>

16 <https://www.officeforstudents.org.uk/news-blog-and-events/press-and-media/office-for-students-says-higher-education-in-reasonable-financial-health-but-warns-of-over-ambitious-student-number-forecasts/>

17 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/799349/International\\_Education\\_Strategy\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/799349/International_Education_Strategy_Accessible.pdf)

## 4. Are full fees the answer?

Today, people in other countries are wondering whether they might pull off the same trick that the UK managed 40 years ago. In France, for example, they are trying to increase the number of international students while significantly raising their fees. A spokesman for Campus France has been quoted saying, 'The Asians, the Middle Easterners and the Anglophone Africans tend to believe that there is a value in education, and they sometimes say that if it's free, it can't be any good.'<sup>18</sup>

If this policy succeeds in France, or if the UK does manage to attract more students from other EU countries after Brexit, it will go against a continuing scepticism about the ability of countries to attract more international students after raising fees. In 2018, two education analysts at the OECD claimed: 'Available evidence shows that the number of international students coming to a country can decline dramatically following an increase in tuition fees.'<sup>19</sup>

When it comes to setting policy, it may make a difference whether or not a country and its institutions can make a surplus from international students, which provides a recruitment incentive, rather than merely reducing subsidies.

Back in the 1980s, some close observers recognised full fees for international students could lead, in time, 'towards some forms of economic charging to home students.'<sup>20</sup> The three upward shifts in fees for international students that had occurred in the 1960s, 1970s and 1980s, so that the fees eventually covered the full costs of courses (and more), was mirrored by the three upward shifts in fees for home / EU undergraduates in England from £1,000 in 1998 to £3,000 in 2006 and £9,000 in 2012 (although loans covered the costs).

The increase in fees to £9,000 in 2010

18 <https://www.thetimes.co.uk/article/french-bid-to-lure-students-from-uk-after-brex-it-d290bg5xr>

19 <https://ejournals.bc.edu/index.php/ihe/article/view/10278/8953>

20 [https://www.jstor.org/stable/1187351?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/1187351?seq=1#page_scan_tab_contents)

represented an increase in the unit of resource (the amount of funding institutions receive to educate each student) comparable to that which occurred after international students started paying full fees. It also led on to increased demand, at least in relation to first-time full-time undergraduate students. In August 2019, UCAS noted: '39.5 per cent of all 18 year olds in England have submitted a UCAS application, up from 38.1 per cent at the same point last year, and a new record.'<sup>21</sup>

One thing that can confuse observers of higher education institutions is the large gap between the higher education sector's apparent general dislike of marketisation when applied to home and EU students and their unrivalled ability to make a success of marketing our universities to people from the rest of the world. But they respond to the incentives put in place by Governments of different stripes and, in the colourful words of Derek Bok, a former President of Harvard, 'Universities share one characteristic with compulsive gamblers and exiled royalty: there is never enough money to satisfy their desires.'<sup>22</sup>

Does all this mean that full fees are the right answer in all circumstances? No.

- The introduction of the ELQ policy, increasing the costs for students taking an Equivalent or Lower Qualification to one they already hold, showed second-chance students are highly price-sensitive.
- The big increase in fees in 2012 showed the same for part-time students.<sup>23</sup>
- The *Independent Panel Report to the Review of Post-18 Education and Funding*, known as the Augar review, calls for a reduction in the fee cap for home undergraduates to £7,500, in part on the (contested) grounds that 'The current system works well for most

21 <https://www.ucas.com/corporate/news-and-key-documents/news/al-most-four-ten-young-people-england-apply-university-new-record>

22 Derek Bok, *Universities in the Marketplace*, 2005, p.9

23 [https://www.hepi.ac.uk/wp-content/uploads/2015/10/part-time\\_web.pdf](https://www.hepi.ac.uk/wp-content/uploads/2015/10/part-time_web.pdf)

groups but debt is still a deterrent for the disadvantaged'.<sup>24</sup>

Moreover, increasing fees at UK universities for people living in EU countries with no or minimal fees at their own well-regarded universities may be different to raising fees for non-EEC students in the UK back in the 1980s. On the other hand, there are good reasons why people want to study at UK universities that continue to apply.

## 5. Concluding thoughts

There are no grounds for rejecting the economic modelling that suggests changes to fees and loans for EU students could lead to a big decline in the number of new students from EU countries. Equally, the precedent from the 1980s, when higher fees for international students led to increases in supply and demand, might be right or wrong or irrelevant in post-Brexit Britain.

It is unfortunate that our economic modelling and the clearest historical precedent point in opposite directions. No one can know for certain which is a better guide to the future, especially when the details of Brexit remain vague.

But, while there is almost no one in the higher education sector who would have wished for the Brexit discussions to have gone the way they have in the past few years, what happens to the relative attractiveness of UK higher education institutions after Brexit is partly, at least, in the control of individual institutions and the sector as a whole.

<sup>24</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/805127/Review\\_of\\_post\\_18\\_education\\_and\\_funding.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/805127/Review_of_post_18_education_and_funding.pdf)

It is also in the hands of the Government, who could usefully streamline visa processes, improve the post-study work rules and provide clarity over how they intend to treat EU students in the future.

## Policy takeaways

1. The best modelling that has been undertaken on changes to fees and loans suggests there will be a big drop in the number of EU students coming to the UK after Brexit.
2. Changes to the value of the pound are also likely to determine the degree to which institutions are affected.
3. Any scenario that reduces the number of international students at UK institutions, or limits access to the wealthiest people in other countries, will harm the diversity of UK universities.
4. One important precedent suggests ending subsidies for students from other countries can sometimes provide new financial incentives on institutions to enrol them.
5. The future of demand from people in other countries to study in the UK depends in part on government policies and in part on the strategies of higher education institutions.



Higher Education Policy Institute

99 Banbury Road, Oxford OX2 6JX  
Tel: +44 (0) 1865 284450  
admin@hepi.ac.uk [www.hepi.ac.uk](http://www.hepi.ac.uk)