



# Steps forward, steps backward

What to make of the government's plans  
for higher education market reform

edited by James Croft and Gabriel Heller Sahlgren

Research report 8



**CENTRE FOR THE STUDY OF MARKET REFORM OF EDUCATION**

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## Foreword

### – **Baroness Perry of Southwark**

There has probably never been any period when higher education has faced so much turbulence and change as it is now experiencing. One need only to reflect on the changes to funding arrangements, the encouragement of a new range of alternative private providers, the creation of a new Office for Students, the plans for teaching assessments and the continuing challenge of visa regulations for foreign students, to realise that those who lead institutions, and those who write about higher education, need to be well prepared and organised to respond to all these issues if Universities as we know them are to survive. As Emran Mian comments in one of the essays in this collection, ‘the scope for disruption is underestimated within the sector as well as inside government’.

It is therefore most welcome to find a collection of such thoughtful, considered and at times passionate essays dealing with so many of the topics which the system must address.

Throughout each essay is the recognition that government has encroached further and further on the autonomy of universities, and with the new legislation will move even closer. From the happy days when the Universities Funding Council was set up with a casual memo from the Treasury as a buffer between government and academe, we now have a government which controls the distribution of research money, controls pricing, regulates the market for students

from overseas and, as it moves into the assessment of teaching, will inevitably intrude into many detailed aspects of university life.

The White Paper proposals for teaching assessment form a substantial part of the comments in this collection. A thoughtful critique of the proposals is made by Alison Goddard in her essay on a teaching revolution, with a salutary look at the experience of other countries. Louisa Darian's essay deals directly with the difficulty of finding the right – and appropriate – data for assessing universities. She rightly points out the inadequacy of much of what is currently used in league tables, which widely determine student choice. Forebodingly, however, she argues that teaching quality can only be reliably assessed by visits to classrooms, and I am pleased that she is quick to acknowledge the threat to academic autonomy of such a move.

Len Shackleton's analysis of the real benefit of a free academic element in national life makes a powerful case for government undertaking a 'substantial withdrawal' from interference. His excellent argument for government looking for ways to increase competition rather than control pricing is a theme of many of the essays here.

Three of the essays deal with the issue of returns from higher education for students. Harry Patrinos offers analysis of the latest estimates and makes the case for expansion of higher education provision based on a fair and sustainable cost-recovery model at the university level based on future earnings. An equity-based risk-sharing model, by which universities take a stake in graduates' human capital and, thereby, their future earnings, is offered by Peter Ainsworth. Ainsworth finds this the 'only workable solution' for ensuring that quality and relevance

for employability are prioritised, and that both price flexibility and access for all may be guaranteed, across the range of subjects, without students having to pay up-front. Meanwhile, reflecting on a central paradox of the graduate job market – of graduates finding no employment fitting their education, while employers complain of the skills shortage at graduate level – Nima Sanandaji makes a fresh case for the development of more integrated continuing adult education.

The planned expansion of institutions through the granting of degree-awarding powers to new alternative providers is examined in the essay of Emran Mian. If the new providers are of high quality – and some prestigious US universities have expressed an initial interest – and if they are situated in geographically underprovided regions, then they must be welcomed. But if their offerings are of less than excellent in quality, and they attract mainly students from disadvantaged backgrounds, then this could only increase the divide between the least and most fortunate in our society.

All together, this collection of essays is both timely and welcome. It is my belief that the academic world has failed over many decades, to address the question of just where the proper dividing line between government and university autonomy should be drawn. Government funds – in one way or another – much of the total university spend. Government has a legitimate concern that public money is well and appropriately spent. What level of regulation, and what level of trust, should government then exercise? This collection is a start in addressing that question.

Those of us who have worked in higher education should have used the expertise of the professors and teachers in our institutions to address that question long ago. One can only

hope that it is not too late for an informed debate between the academic world and government to begin.

**Pauline Perry**

Westminster

May 2016

# 1. A teaching revolution

## – Alison Goddard

America leads the world in higher education.<sup>1</sup> Its universities dominate the league tables; its oldest institutions are also the world's best endowed universities. Its global reputation has enabled it to attract the most international students,<sup>2</sup> not just to its top performing institutions but to others lower down the rankings, too. Almost a million are enrolled, twice the number hosted by the UK, the second most-popular destination, and far more than Australia, France or Germany.

Yet from an international perspective, the UK ranks a worthy second. Its institutions routinely perform well in global rankings, despite having just a fraction of the wealth of their American competitors. Adjusted for population size, the UK outperforms the US in attracting international students. Its ancient universities have been welcoming students for more than twice as long as their American counterparts. Indeed they constitute some of the oldest enduring institutions in the world. And what British universities lack in international comparisons of wealth, they compensate for in efficiency. The UK accounts for just 3.2 per cent of the world's spending on science, but generates 16 per cent of the world's most highly cited scientific publications.<sup>3</sup>

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1 OECD, *Education at a Glance 2015: OECD Indicators* (Paris: OECD Publishing, 2015) Available at [http://www.oecd-ilibrary.org/education/education-at-a-glance-2015\\_eag-2015-en](http://www.oecd-ilibrary.org/education/education-at-a-glance-2015_eag-2015-en) (accessed 13th June 2016).

2 Institute of International Education, *Open Doors 2015 Report on International Educational Exchange*. Press release and executive summary available at <http://www.iie.org/Who-We-Are/News-and-Events/Press-Center/Press-Releases/2015/2015-11-16-Open-Doors-Data#.VzwwzJMrKi5> (accessed 13th June 2016).

3 'International Comparative Performance of the UK Research Base'. A report prepared

Counter-intuitively it may have been a lack of funding that has enabled the UK to punch above its weight for the past three decades. During Margaret Thatcher's second term in office in the mid-1980s, public spending on higher education and research fell steeply in the UK.<sup>4</sup> University leaders had to compete for scarce funds. To inform the competition, in 1986 they created the research assessment exercise, in which peer review was used to identify the best research. The model has evolved to become the Research Excellence Framework, most recently run in 2014, when it was used to inform the allocation of £6 billion of state funding. The exercise has also become another successful British higher education export, replicated in many nations worldwide.

Now British higher education is about to undergo another transformation, this time in teaching. A proposed Teaching Excellence Framework, under which universities in England that can demonstrate the excellence of their tuition will be allowed to charge higher fees, will be introduced. However it is far from clear that the reforms will actually improve university teaching.

## Why England will have a Teaching Excellence Framework

A clue lies in the genesis of the proposals, which are purely political. Picture the scene. It's January 2015. Jo Johnson is head of the Number 10 Policy Unit that serves the Tory component of the coalition government that has governed

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by Elsevier for the UK's Department of Business, Innovation and Skills (2013). Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263729/bis-13-1297-international-comparative-performance-of-the-UK-research-base-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263729/bis-13-1297-international-comparative-performance-of-the-UK-research-base-2013.pdf) (accessed 13th June 2016).

- 4 S. Rogers, 'How Britain changed under Margaret Thatcher. In 15 charts,' *The Guardian*, 8th April 2013. Available at <http://www.theguardian.com/politics/datablog/2013/apr/08/britain-changed-margaret-thatcher-charts> (accessed 13th June 2016). See also, D. Greenaway and M. Haynes, 'Funding Higher Education in the UK: The Role of Fees and Loans', *The Economic Journal* 113 (February 2003).

the UK since May 2010. It is four months until the general election and he has been asked to draft the Conservative Party's manifesto. To inform the party's higher education policy, Johnson decides to visit the offices of David Willetts, the universities and science minister, who has been caught up in the maelstrom created by the results of the 2014 Research Excellence Framework, which were published last month.

Johnson asks Willetts what he most regrets not having achieved during his time in office. And Willetts replies that he wishes that universities wouldn't obsess about research while giving a lower billing to teaching. It doesn't serve students well. If only there could be parity of esteem, he muses. Johnson probes further: how might that be achieved? Well perhaps the party should introduce an evaluation of teaching quality, Willetts suggests, along the lines of the Research Excellence Framework.

Johnson notes the idea. It could be an easy promise to make. After all, it is not as if the Conservative Party is going to win the general election in May. The polls currently suggest that Labour will gain the most votes, though probably not enough to form a majority government. Her Majesty's official opposition will probably gain power by entering into a coalition, perhaps with the Liberal Democrats, or possibly with the Scottish National Party.

Fast forward to the early hours of 8th May. Johnson is with the prime minister, who has prepared his resignation speech. But as the results of the election start to come in, it is becoming apparent that the party has done much better than the polls suggested. By dawn, it is on track to win an outright majority. The Today programme announces the news. Ed Miliband rings to concede defeat. The resignation speech is binned and instead David Cameron is working on another version that will say: "Our manifesto is a manifesto for working people and as a majority government we will be able to deliver all of it."

Three days later, Johnson has been appointed as universities and science minister. His job is now to make good those manifesto promises that had been so easy to jot down. He has an electoral mandate to deliver.

### Seeing the bigger picture

Johnson's starting point is to look more generally at British higher education. Despite its international standing, there are problems with the system. It has long promoted the interests of providers over those of consumers. Most recently this was demonstrated through the introduction of £9,000 tuition fees in England in 2012, which ensured that universities would be properly funded but offered less certainty to debt-saddled students or to the taxpayers who will ultimately underwrite the system. Indeed almost every agency within the higher education system operates for the universities and not the students. Take, for example, the way in which university hopefuls are prevented from applying for an undergraduate place at as many institutions as they like, or the archaic rules that force talented youngsters to choose whether to apply to the University of Oxford or the University of Cambridge, because they are barred from seeking a place at both.

Johnson concludes that the plan to create parity of esteem between teaching and research should thus form part of a broader reform of higher education that seeks to introduce market incentives to favour student choice over the vested interests of universities themselves. Meanwhile, he commissions a literature review of the experience of other countries that have attempted to introduce systems to measure the quality of university teaching.<sup>5</sup>

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5 D. Greatbatch and J. Holland, 'Teaching Quality in Higher Education: Literature Review and Qualitative Research'. Report prepared for the Department for Business, Innovation and Skills by HOST Policy Research, May 2016. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/524495/he-teaching-quality-literature-review-qualitative-research.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524495/he-teaching-quality-literature-review-qualitative-research.pdf) (accessed 13th June 2016).

Unsurprisingly it identifies the US as an early forerunner in attempts to measure teaching quality. It has done so since the 1960s, albeit using input and output metrics rather than any specially constructed exercise. The OECD, which has enjoyed great success in comparing the performance of school systems of its member states, has been developing a similar system for comparing universities; however this has met with much resistance, particularly in the UK, where the leaders of highly selective institutions worry that, because they choose only the best students, they will fail to demonstrate the value added to their education.

Meanwhile Australia – which, like England, has spent much of the past few years trying to promote the marketisation of higher education – did manage to introduce a national but short-lived system for financially rewarding universities that demonstrated good teaching. Another country to attempt to measure teaching quality using a national system of metrics and inspections is Germany. This is less helpful, since Germany turned its back on marketised reforms in 2015 when it abolished tuition fees. But the country with the best developed framework for evaluating its university teaching is perhaps that with one of the least marketised systems: China.

The Undergraduate Teaching Evaluation was introduced to China in 2003 in response to a rapid expansion of the nation's universities, which led to worries that the quality of teaching was worsening. It was used over the following five years to determine the quality of university teaching in 589 higher education institutions. Each university was asked to undertake a self-evaluation, which was followed by a site visit and some follow-up suggestions. Institutions were ranked as excellent, good, pass or fail. Alas, after none failed the inspections, the exercise was deemed implausible by commentators. A study of the framework concluded that its results 'appeared inconsistent with the public perception

of a decline in the quality of higher education, and the surprisingly high ratio of excellent institutions was widely questioned by scholars.<sup>6</sup> Others criticised the exercise for measuring factors such as the provision of facilities and equipment, rather than the ability of students to use these facilities and their appropriateness for students' learning needs. In early 2012 a second round of Undergraduate Teaching Evaluation was started; it is currently ongoing.

The German system is remarkably similar.<sup>7</sup> It also has three elements: an internal self-assessment, followed by external evaluation conducted through peer review, followed by a follow-up stage that entails implementation of the reviewers' recommendations. A study of the system reveals that it is widely accepted by academics but that concerns were raised about the need to reduce the work burden associated with it, and to ensure that the composition of the expert panels was broadened to include students and employers, as well as international experts.

In Australia, the Learning and Teaching Performance Fund was announced in 2003 to 'reward those institutions that best demonstrate excellence in learning and teaching'.<sup>8</sup> Some \$250 million (£125 million) would be allocated over three years to raise the status of teaching so that it equalled that of research. As is proposed in England, it used existing metrics: a survey of student satisfaction called the course experience questionnaire; and the graduate destination survey, which is taken a year after leaving higher education; as well as official

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6 H. Yin and W. Wang, 'Assessing and improving the quality of undergraduate teaching in China: the Course Experience Questionnaire', *Assessment and Evaluation in Higher Education* 40(8), p. 1033, referenced in Greatbatch and Holland, *op. cit.*

7 N. Hillman, 'Keeping up with the Germans: a comparison of student funding, internationalisation and research in UK and German universities', HEPI report 77. Available at <http://www.hepi.ac.uk/wp-content/uploads/2015/09/HEPI-Keeping-Up-WEB.pdf> (accessed 13th June 2016).

8 B. Nelson, *Our Universities: Backing Australia's Future* (Canberra, Australian Capital Territory: Department of Education, Science and Training (DEST), 2003), Appendix 1.

student drop-out rates. However the variations between universities scores were usually minor and rarely statistically significant, which made the exercise a highly controversial way to allocate funding. The scheme was quietly dropped and efforts to develop a more robust measure of teaching excellence were finally abandoned in 2011, when higher education budgets were slashed and spending for the project terminated. The move was welcomed by Leesa Wheelahan, now of the University of Toronto in Canada, who wrote soon after the fund was announced: ‘The Learning and Teaching Performance Fund simply encourages game-playing between institutions in manipulating their teaching outcomes, and rewards good teaching on grounds that make no statistical or policy sense.’<sup>9</sup>

### Lost in translation

In a technical consultation published on 16th May, Johnson seeks to introduce a Teaching Excellence Framework that contains many of the elements of its counterparts elsewhere in the world. It would be informed by metrics but also incorporate additional evidence created by the institution itself. It would also evolve over time. However the exercise uses existing metrics that are flawed: measures of student satisfaction are widely believed to be gamed by universities and students who have an interest in exaggerating the quality of the education they received in order to boost their alma mater’s league table ranking and make themselves appear attractive to potential employers, for example. Indeed research has suggested that many students highly rate ineffective teachers.<sup>10</sup>

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9 L. Wheelahan, ‘How not to fund teaching and learning’, *Australian Universities Review*, Vol. 49, Nos. 1 and 2 (2007), p.31. Available at <http://files.eric.ed.gov/fulltext/EJ802275.pdf> (accessed 13th June 2016).

10 M. Braga, M. Paccagnella, M. Pellizzari, ‘Evaluating students’ evaluations of professors’, *Economics of Education Review* 41 (August 2014). Available at <http://universitetsavisen.dk/files/undersoegelsen.pdf> (accessed 13th June 2016).

In December 2016, all English universities that wish to enter the Teaching Excellence Framework – which is likely to be all of them – will be invited to put their names forward. By April 2017 the results will be known. Expert panels will use data on student satisfaction, drop-out rates and graduate prospects to determine whether each institution has a record that could be described as outstanding, excellent or meets expectations. There will also be opportunities for universities to provide additional information, although the tight timescales suggest that it is unlikely these will be taken up.

From autumn 2017, all English institutions that have had a favourable review by the Quality Assurance Agency (which doesn't really do unfavourable reviews, certainly not for well-established providers) will be allowed to increase their tuition fees in line with inflation. However tight schedules mean that most will not do so: a school-leaver who had applied for a course offered at £9,000 would have a strong case against an institution that raised the fee to £9,250 before the start of term.

Then from autumn 2018, all English institutions that have entered the Teaching Excellence Framework and informed prospective students of their plans will be allowed once again to increase their tuition fees in line with inflation. From autumn 2019, only those rated outstanding or excellent will be able to continue to do so; those rated as meeting expectations will be allowed an inflationary uplift of just 50 per cent of the inflation rate. Future iterations of the exercise will judge university teaching at the disciplinary level.

Although the Teaching Excellence Framework will deflect some attention away from research and onto teaching, historically low inflation rates mean the sums involved are relatively small. Moreover the results will operate at the institutional level. The Research Excellence Framework, which so cleverly aligns kudos and cash, is reported at

the departmental level but individuals are submitted to the exercise. It is difficult to see why academics would be motivated to deliver excellence in teaching from Johnson's proposals. Not least because no one knows how to define excellence in teaching.

What's not to like?

There are other problems, too. The exercise will be run by a new body, the Office for Students. It will have a duty to 'encourage competition where that is in the interests of students and employers'.<sup>11</sup> It will be empowered to protect and represent the interests not only of students but also of taxpayers and employers. Universities that wish to charge tuition fees will be obliged to fund the new body through an institutional subscription fee.

But if the Office for Students is to be funded by those it will be regulating, then it risks ignoring practices that could cause institutional failures further down the line. Universities have acted in their own interests for far too long, but obliging them to pay for the running of an organisation that seeks to promote the interests of students ahead of those of institutions is likely to lead to muddled thinking.

Moreover, if the Higher Education and Research Bill published on 19th May is passed into law, the Office for Students will have the authority to grant higher education providers the power to award foundation degrees, taught degrees and research degrees. It will also have the authority to revoke the powers of institutions to award degrees, overriding Acts of Parliament and royal charters. It will replace the Privy Council as the authority to permit providers of higher education to use the title of university. It will also have the authority to revoke the use of the title 'university', even when it has been

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11 Higher Education and Research Bill 2016, Part 1, Clause 2, subsection (1)(b).

previously given by an Act of Parliament or by royal charter. Under certain circumstances, it will receive the property, rights and liabilities of universities that have failed. Such sweeping reforms risk provoking the ire of vice-chancellors, MPs and peers, who could block its passage through Parliament.

Meanwhile Nicholas Stern is conducting an independent review of the way in which the next iteration of the Research Excellence Framework will be run. A single framework for assessing both teaching and research was considered by the government ahead of its decision to introduce a new one looking at teaching on its own. Although the model was not further developed, the government now has an opportunity to consider how the two exercises will interact.

In his foreword to the white paper published on 16th May, Johnson states: 'Our universities rank among our most valuable national assets, underpinning both a strong economy and a flourishing society. Powerhouses of intellectual and social capital, they create the knowledge, capability and expertise that drive competitiveness and nurture the values that sustain our open democracy.' Indeed. Ensuring they continue to do so, while delivering on his election pledges, is likely to prove a challenge.

## 2. Weights and measures: the challenge of recognising and rewarding quality in the higher education market

– **Louisa Darian**

Government policy has supported the development of a market in higher education: choice has increased, both in terms of the number and type of provider, and fees have risen. In this context, information has become more important, and yet while there is no shortage of data in the higher education sector there is a dearth of the right types of information. Most importantly, and unlike many other public service sectors, there is little information on quality. At the same time, marketing teams and league tables have grown in number and significance, at times adding to the confusion. This has implications for student choice and oversight of quality in the sector. It also means that providers delivering the best teaching are not recognised for it.

A number of developments have aimed to address this. The Competition and Markets Authority has issued consumer guidance for the sector, and the Government's White Paper sets out a number of initiatives to revolutionise transparency, including through a Teaching Excellence Framework. In relation to the latter, the White Paper goes some way to addressing some of the initial concerns, but there remain issues that could threaten its success. A key challenge is how to introduce a framework that is both light-touch, but also genuinely measures what it set out to.

## Why change is needed

The sector has grown considerably in size and scope over the last few decades. The lifting of the student number cap, and measures to make it easier for new providers to enter the sector mean that there is more choice in higher education. At the same time, students face higher costs and risks, with evidence that some new providers are delivering poor quality courses.<sup>1</sup>

This has made access to information all the more important, both to support choice but also oversight of quality in the sector. And yet there are limits to what is available, particularly in relation to information on quality. While universities are rated for their research excellence this does not apply to teaching and, unlike other sectors, the Quality Assurance Agency for Higher Education (QAA) does not provide a rating of teaching quality. Information on other aspects of courses is also limited. For example, information on employment outcomes, including earnings, is based on data six months post-graduation. And information in relation to postgraduate provision is even worse.

In the absence of good information, poorer measures of quality have often been drawn on, including entry standards, which are a better reflection of students' pre-existing abilities, and fees. Degree outcomes (the number of 2:1s and 1sts awarded) have also been used, despite the fact that they are not comparable. Together, and alongside wider information, these data have been included in league tables. These now exist for almost every aspect of the student experience, and all drawing on different methodologies and metrics. These are often used by students: half of prospective students report

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1 National Audit Office, *Investigation into financial support for students at alternative higher education providers*, HC 861 Session 2014-15, 2nd December 2014. Available at <https://www.nao.org.uk/wp-content/uploads/2014/12/Investigation-into-financial-support-for-students-at-alternative-higher-education-providers.pdf> (accessed 13th June 2016).

that they used league tables to make their choice,<sup>2</sup> and six in ten undergraduates say that they are a good indicator of quality.<sup>3</sup> It is no surprise, therefore, that they have also been popular with university marketing teams, which have grown in size. A study of 70 institutions found that spend on marketing had increased to £6 million in 2012-13, up almost 15 per cent from the previous year.<sup>4</sup> In some cases, this has added to confusion. Students see league tables as a key means to understand quality and yet academic research suggests that they are a poor overall indicator of this.<sup>5</sup>

The result is that we know little about where the best practice lies in the sector. This means that we cannot conclusively say that there is bad practice in parts of the sector, but we also can't counter that with evidence that there isn't. A look at some of the proxies for quality also suggests that there may be quality enhancements to be made. For example, 38 per cent of staff do not have a teaching qualification,<sup>6</sup> despite evidence from the Higher Education Academy (the body charged with promoting teaching excellence in universities) that demonstrates its importance.<sup>7</sup> We also know that there are

- 2 Unpublished survey findings from *Which?* based on findings from online survey with 992 applicants (due to start university in September 2015), between 27th March and 2nd April 2015.
- 3 'A degree of value: value for money from the student perspective', *Which?*, November 2014. Available at <https://www.nao.org.uk/wp-content/uploads/2014/12/Investigation-into-financial-support-for-students-at-alternative-higher-education-providers.pdf> (accessed 13th June 2016).
- 4 D. Matthews, 'Marketing spend up, but applications fail to follow suit', *THE*, 20th March 2014. Available at <https://www.timeshighereducation.com/news/university-student-marketing-spend-up-22/2001356.article> (accessed 13th June 2016).
- 5 A. Abbas, P. Ashwin, M. Daykin, X. Gao, and M. McLean, 'The Pedagogic Quality and Inequality in University First Degrees', University of Nottingham, forthcoming. See <http://www.pedagogicequality.ac.uk/> (accessed 13th June 2016).
- 6 Data request submitted to HESA, June 2014. Academic staff are defined as staff at least one of whose contracts of employment was for an academic function and whose contract activity can be categorised as 'managers, directors and senior officials', 'professional occupations' or 'associate professional and technical occupations', as defined by the 2010 Standard Occupational Classification (SOC) major groups 1, 2 or 3
- 7 Higher Education Academy (HEA), 'The relationship between HEA Fellowship and student engagement', 2016, available at <https://www.heacademy.ac.uk/sites/default/>

significant variations in how hard students are working across different subjects and institutions.<sup>8</sup>

There are numerous implications of this picture. It means students are not always making informed choices. We know that three in ten students think that a 2:1 is the same across different universities when this is not the case.<sup>9</sup> And graduates often report that they would have conducted different research in hindsight, with three in ten saying that they would have researched employment outcomes and one-quarter teaching quality. It also means that good practice is not always being recognised and that there has been less need for providers to compete on price with fees averaging close to the £9,000 cap. While some have been able to draw on the power of their reputation and brand, others have had to work much harder.

## Recent developments

The problems with information in higher education have been the subject of a number of government inquiries and initiatives. The Office of Fair Trading's inquiry, later taken up by its successor body the Competition and Markets Authority, identified a range of information that they deemed to be 'material', but which was often not being made available to students. This included a whole range of information including on course composition, the amount of private study expected and the amount and type of teaching, as well as information on total costs, and will have significant implications for

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files/downloads/ukes\_and\_heia\_fellowship\_correlation\_march\_2016.pdf (accessed 13th June 2016); and G. Gibbs, 'Dimensions of Quality' (York: HEA, 2010), available at [https://www.heacademy.ac.uk/sites/default/files/dimensions\\_of\\_quality.pdf](https://www.heacademy.ac.uk/sites/default/files/dimensions_of_quality.pdf) (accessed 13th June 2016).

- 8 'The Student Academic Experience Survey, 2013', *Which?* (May 2013). Available at [http://www.hepi.ac.uk/wp-content/uploads/2014/02/1.Higher\\_Educational\\_Report.pdf](http://www.hepi.ac.uk/wp-content/uploads/2014/02/1.Higher_Educational_Report.pdf) (accessed 13th June 2016).
- 9 'A degree of value: value for money from the student perspective', *Which?* (November 2014). Available at <https://press.which.co.uk/wp-content/uploads/2015/09/A-degree-of-value-November-2014.pdf> (accessed 13th June 2016).

institutions processes.<sup>10</sup> The watchdog also called for reform of the Key Information Set and for providers to set out their terms fairly and transparently. A compliance check is underway, and we will soon know whether their advice has been heeded, although a review by *Which?* found that some institutions were still not meeting their legal requirements.<sup>11</sup>

The Government's White Paper outlined plans to revolutionise transparency in the sector.<sup>12</sup> Included in this are controversial proposals to introduce a Teaching Excellence Framework (TEF). The proposals will be phased in over a four-year period with assessment based on performance against set metrics, as well as contextual evidence submitted to a panel. Institutions will be rated on a three-point scale: meets expectations, excellent and outstanding, initially at institution level but with plans to move to discipline level in time. Once fully-fledged, providers will be able to increase their fees above the current cap at different rates, but not exceeding inflation. The core metrics will initially include retention rates, employment outcomes and satisfaction scores, with pilots to be undertaken to include new metrics including a measure of contact hours and teaching intensity and a highly-skilled employment metric. HEFCE is also exploring ways to measure learning gain in relation to core skills like problem solving and critical thinking.

The Government also announced its intention to publish longer-term information on employment outcomes via a Longitudinal

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10 Competition and Markets Authority (CMA), 'UK higher education providers – advice on consumer protection law: helping you comply with your obligations', CMA33, 12th March 2015. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/428549/HE\\_providers\\_-\\_advice\\_on\\_consumer\\_protection\\_law.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/428549/HE_providers_-_advice_on_consumer_protection_law.pdf) (accessed 13th June 2016).

11 'Higher education: audit of providers' website information', *Which?* (October 2015). Available at <http://press.which.co.uk/wp-content/uploads/2015/10/Which-HE-investigation-audit-of-website-information-provision-23-October-2015-1.pdf> (accessed 13th June 2016).

12 Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/523546/bis-16-265-success-as-a-knowledge-economy-web.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523546/bis-16-265-success-as-a-knowledge-economy-web.pdf) (accessed 13th June 2016).

Educational Outcomes dataset (LEO), enabling students and others to chart the transition of graduates from higher education to the workplace. A ‘Transparency Duty’ will require institutions to publish admissions, application information and retention information broken down by student characteristics to help meet ambitious social mobility targets.

These measures have the potential to unearth where the really good practice in the sector lies, to the benefit of students and other providers. However, there remain a fundamental set of issues that could significantly undermine its success.

### *Will students use it?*

This is a real concern, and one that is not specific to higher education – government departments and regulators across all sectors will have queried how to get users to be more enquiring when making choices. Findings from BIS’s own research raise a number of doubts. Their applicant survey suggests that most students do not think that there is a problem with information, with just ten per cent saying that information on quality is not transparent and six in ten saying it is.<sup>13</sup> Their qualitative research findings also find that, while students think the information would be useful, it probably wouldn’t change their choice.<sup>14</sup> This is not news to most people. Research by *Which?* also found that many students do not draw on information at the time of making their choices, but it presents a challenge to the government’s proposals.<sup>15</sup>

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13 Teaching quality in higher education: applicant and graduate views, BIS, 2016 Available at <https://www.gov.uk/government/publications/teaching-quality-in-higher-education-applicant-and-graduate-views> (accessed 13th June 2013).

14 Teaching quality in higher education: literature review and qualitative research, BIS, 2016 Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/524495/he-teaching-quality-literature-review-qualitative-research.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524495/he-teaching-quality-literature-review-qualitative-research.pdf) (accessed 13th June 2016).

15 ‘A degree of value’, *Which?*, op. cit.

### *Will we see variation?*

The whole point of the TEF is to try and find out where the good and back practice lies, and weed out the bad, on the assumption that there is poorer teaching practice in parts of the sector. However, it appears that BIS have already crunched the numbers and aren't expecting to find hugely shocking findings. They predict a bell-shaped distribution with expectations that 20-30% will receive an 'Outstanding' rating and 50-60% 'Excellent'.<sup>16</sup> This expectation also lies in the labels themselves, with the difference between 'Excellent' and 'Outstanding' indistinguishable to all but an expert eye. It's also a clear departure from the common, and more user-friendly, 'Good' and 'Excellent' used by Ofsted.

### *Will it drive quality improvements?*

It could do, but only if it measures the right things. The core metrics are already available, and so there is a risk that they add nothing new. And concerns have been raised that measures like employment outcomes do not measure teaching quality, but are rather a reflection of students' existing abilities or different local labour market characteristics.<sup>17</sup> It also needs to be available at department level, given evidence of varying quality between different departments;<sup>18</sup> and there is also a risk that the incentives are not great enough to encourage institutions to strive for 'excellence'. The difference in uplift between those 'Meeting Expectations' and the higher award for those who are 'Excellent' or 'Outstanding' is just 50 per

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16 Department for Business, Innovation, and Skills, 'Teaching Excellence Framework: Technical Consultation for Year Two', May 2016. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/523340/bis-16-262-teaching-excellence-framework-techcon.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523340/bis-16-262-teaching-excellence-framework-techcon.pdf) (accessed 13th June 2016).

17 G. Gibbs, 'Dimensions of Quality', Higher Education Academy, 2010. Available at [https://www.heacademy.ac.uk/sites/default/files/dimensions\\_of\\_quality.pdf](https://www.heacademy.ac.uk/sites/default/files/dimensions_of_quality.pdf) (accessed 13th June 2016).

18 J. McCormack, C. Propper, and S. Smith, 'Herding Cats? Management and university performance', CPMO. Available at <http://www.bristol.ac.uk/media-library/sites/cmpo/migrated/documents/wp308.pdf> (accessed 13th June 2016).

cent. This could equate to around £100 per student – is that enough of an incentive? Perhaps cumulatively. But we will also have to be prepared that those who don't have the resources to invest in better quality, possibly including many further education colleges who have received a poor overall financial settlement, potentially falling away.

### *Will it recognise diversity?*

The government has stated that all the metrics will be benchmarked against demographic data in order to ensure that they more accurately reflect the quality of the institutions. However, will this be enough? Ofsted ratings have suffered from accusations that they favour certain types of provider. There have been concerns about potential bias towards free schools, and Ofsted's chief statistician has also been reported as having said that it is harder for schools with lower-ability intakes to gain 'good' or 'outstanding' judgements.<sup>19</sup> Diversity also relates to discipline. The move to discipline-level ratings should help but only if discipline-level panels and experts are introduced who understand what excellence looks like at course level. And while there is currently no reference to use of earnings data, the White Paper does say that the TEF will draw on the new LEO dataset in time. This has potential risks for the arts and humanities if universities decide to no longer fund these courses.

### *Will it be costly?*

Almost certainly. While there will be no cost to providers to apply, there will undoubtedly be swathes of new staff and TEF teams created at institution-level to support this. There will also be the cost of the various different panels,

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<sup>19</sup> E. Busby, 'Brighter pupils make getting top marks easier, Ofsted admits', *TES*, 21st November 2015. Available at <https://www.tes.com/news/school-news/breaking-news/exclusive-brighter-pupils-make-getting-top-ratings-easier-ofsted> (accessed 13th June 2016).

particularly when things move to subject and potentially postgraduate level. However, this needs to be weighed against the potential financial, and opportunity, costs to students, of making the wrong choice.

The next stage of development

Some of these challenges are not unique to the TEF. There is a long history of ratings in the wider education and health and social care sectors, both of which have experienced similar challenges and where regulators and providers have looked for ways to overcome them. This can provide useful insights for the TEF.<sup>20</sup> This is particularly the case for Ofsted where ratings have evolved from schools to wider education markets, including early years and further education, and where ratings are widely used by parents – 57 per cent use ratings when choosing their child’s school.<sup>21</sup> The weight of Ofsted ratings is also evident from research which has found that a unit increase in ratings leads to a rise of half of one percent in local property prices.<sup>22</sup>

In addressing the concerns raised about the TEF, the following are likely to be important:

### *Ratings available at a subject-level*

This is the level that students make choices at and, given the likely variability in quality between departments, it will also be important to help drive quality improvements where

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20 L. Darian, ‘Designing a teaching excellence framework: lessons from other sectors’, Occasional Paper 13, HEPI, 2016. Available at [http://www.hepi.ac.uk/wp-content/uploads/2016/02/Hepi\\_Louisa-Darian.pdf](http://www.hepi.ac.uk/wp-content/uploads/2016/02/Hepi_Louisa-Darian.pdf) (accessed 13th June 2016).

21 B. Francis and M. Hutchings, ‘Parent Power? Using money and information to boost children’s chances of educational success’, (Sutton Trust 2013). Available at <http://www.suttontrust.com/wp-content/uploads/2014/08/1parentpower-final.pdf> (accessed 13th June 2016).

22 I. Hussain, ‘Consumer Response to School Quality Information: Evidence From the Housing Market and Parents’ School Choice’ (University of Sussex, 2016). Available at <http://www.sole-jole.org/16502.pdf> (accessed 13th June 2016).

they are needed. The need for granular ratings has been recognised in other markets. For example, CQC award a rating for individual hospital departments, which equates to around 48 ratings for a single-site acute hospital. While it is the government's intention to move to discipline-level ratings this will not come into play until 2020-21 and all dependent on the findings from a pilot. In the interim, the Government could consider making ratings that have been applied by Professional Statutory and Regulatory bodies (PSRBs) more easily accessible. PSRBs currently apply a traffic-light red/amber/green rating to professional courses. These are published externally as league tables, but are not widely available to students.<sup>23</sup>

### *The role of experts in developing ratings*

In other sectors, there has been an increasing emphasis on including expert practitioners as part of the assessment process. Up until 2013, CQC inspection teams were made up of compliance inspectors rather than experts in the field. Ofsted is also increasingly employing inspectors directly, rather than outsourcing inspections to outside agencies. While the TEF will draw on the expert views of a panel, this expertise could become diluted with the possible move to subject-level ratings unless subject-level TEF panels are created. And yet this is likely to be important to drive quality improvements. For example, the British Academy has found that, in relation to the social sciences, an element of quantitative skills in the curricula is particularly important and yet widely variable.<sup>24</sup> With the eventual move to discipline ratings, the government should look to include subject experts.

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23 F. Ross, 'Learning from other sectors: using the right end of the telescope' (HEPI, 2016). Available at <http://www.hepi.ac.uk/2016/03/01/learning-from-other-sectors-using-the-right-end-of-the-telescope/> (accessed 13th June 2016).

24 'Count us in: quantitative skills for a new generation' (British Academy, 2015).

### *Information is included in league tables*

Research by *Which?* has found that students report that the general reputation of the university, and league table placement, are some of the most important types of information in assessing quality.<sup>25</sup> Research has also found that the impact of increased National Student Survey (NSS) scores on university applications is largely attributable to a university's position in league tables, because they are visible and readily available. In order to have the required effect, it will be important that the TEF is sufficiently weighted against other league table indicators, such as research excellence and degree outcomes.

### *TEF sits alongside a reformed Key Information Set (KIS)*

This is in line with other sectors, where ratings in health and schools sit alongside a wider set of comparable information in NHS Choices and School Performance tables. And yet the Government has remained fairly quiet on wider KIS reforms. While the TEF may include information on teaching hours and intensity, it will also be important that students have comparable and disaggregated information on this, particularly as the TEF will have a voluntary component and will not initially be available at subject-level. This should also include information on total course costs, and better information on bursary support.

### *Metrics evolve based on the evidence*

The development of metrics should be based on evidence about measures of teaching quality. It is right to include a measure of employment – after all, good teaching should promote skills for employment – but this should be a reasonable measure of whether someone is in work, or a graduate-level job, rather than a measure of earnings. The

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<sup>25</sup> 'A degree of value', *Which?*, op. cit.

government's work to make better information available on earnings is a positive step towards supporting informed choice. But this should not form part of the TEF as it is not a valid measure of quality, but rather a reflection of individual preferences. If it does form part of the TEF, it risks threatening the diversity of courses that are currently available. The government should also look to include a measure of teaching qualifications in the TEF to drive enhancement at staff-level, and as a valid measure of the quality of what students are receiving.

### *The role for a visit?*

In other markets, regulators draw on evidence from a visit, alongside metrics which include good outcomes data (missing in higher education). This is an opportunity to obtain richer evidence on the quality of what is actually being delivered, but also corroborate data where there are concerns about gaming.<sup>26</sup> This would come at a cost, but could be important. There is a question as to whether the role of external examiners could be expanded, or a new peer review process for teaching quality created, as recently suggested by Anthony Seldon, as part of this.<sup>27</sup>

Adhering to these measures opens up potential for significant burden. And there is a real risk that other, poorer, proxies of quality-like degree outcomes will continue to be used by employers and students. Around 80 per cent of employers use a 2:1 and above as a cut-off as point as part of their recruitment practices.<sup>28</sup>

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26 See I. Hussain, 'Subjective Performance Evaluation in the Public Sector: Evidence from School Inspections', Centre for the Economics of Education, London School of Economics, CEE DP 135 (February 2012). Available at <http://cee.lse.ac.uk/ceedps/ceedp135.pdf> (accessed 16th June 2016).

27 A. Seldon and M. Davies, 'Solving the conundrum: Teaching and learning at British Universities' (SMF, 2016).

28 'The AGR Graduate recruitment survey 2013: Winter review' (Association of Graduate Recruiters, 2013). Available at [http://www.agr.org.uk/write/Documents/Surveys/The\\_AGR\\_](http://www.agr.org.uk/write/Documents/Surveys/The_AGR_)

There is also the possibility that introducing greater comparability in standards could remove the need for a TEF, while also promoting institutional autonomy and innovation – something that HEFCE is looking into, but which could be pursued more fervently.<sup>29</sup> While it would be difficult to establish comparability in standards across the whole sector, there may be merit in exploring ways to achieve comparability across institutions with similar profiles of students, much in line with the mission groups where they exist. These institutions could agree to protect standards within their own institutions, and to ensure reasonable comparability between them, in a similar vein to the existing external examining system but oversight by the QAA. Because these institutions compete for the same students, there would be an incentive upon them to keep standards intact.

All in all, the government and sector's progress on this issue should be celebrated. It has real potential to drive quality improvements if got right. There is detail to work through but, with a Bill in progress, and consultations underway, there is an opportunity to get this right.

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Graduate\_Recruitment\_Survey\_2013\_Winter\_Review.pdf (accessed 13th June 2016).  
29 'Revised operating model for quality assessment', March 2016/03, HEFCE. Available at [http://www.hefce.ac.uk/media/HEFCE,2014/Content/Pubs/2016/201603/HEFCE2016\\_03.pdf](http://www.hefce.ac.uk/media/HEFCE,2014/Content/Pubs/2016/201603/HEFCE2016_03.pdf) (accessed 13th June 2013).

### 3. Competition sharpens in higher education: rising costs, declining revenues, switching, and the prospect of institutional failure

– **Emran Mian**

A new wave of higher education reform is underway. One key aim behind the suggested reforms is to increase competition by easing the entry of new providers. This chapter assesses the case for doing so in context of other shifts in the competitive environment, including proposed changes to fees, new switching arrangements for students, and preparations for institutional failure. In the long run, it is these changes, rather than the limited addition of new providers, that are likely to have the greatest effect in terms of sharpening competitive incentives. The main part of this chapter is devoted to considering the potential impact of these measures.

#### New providers

For the moment, the main focus of attention surrounding the Higher Education and Research Bill is the provisions for the entry of new providers. Government envisages a faster track for new providers to win degree-awarding powers and for their students to get access to student finance. The last time the window of opportunity was opened, there quickly arose some real issues around the quality of teaching among the new entrants, and some sharp practice among a small number of them in their use of government-supplied student finance. Research commissioned by the government

confirms that quality among new providers remains variable. Among 740 former students questioned for the report, 46 per cent said that, with the benefit of hindsight, they would have chosen to study at a different institution. Graduate employment rates and completion rates are also lower: the latter stood at just 75 per cent.<sup>1</sup>

There are some plausible reasons why these rates might be lower, and why student satisfaction might trail as well – for example, many new providers have a very different student intake to the average – nevertheless these are not great trailers for expansion in the sector. Now the government is seeking to limit entry to higher-quality providers – and to take a tougher risk-based approach to regulating them once they are up and running.

It is difficult at this stage to judge how effective these measures might be in avoiding a rerun of the problems of the past. The potential costs of expansion are therefore indeterminate. What of the benefits? Some of these are indeterminate, too. Clearly a leading private university from the US with a long established culture of teaching and scholarship is a very different proposition to a new provider whose offering is much more commoditised. There are hints that some providers from the former category are eyeing an entry to our market – New York University, for example, already offers some courses in London and has recently established full degree-granting campuses in Abu Dhabi and Shanghai – but they remain hints for now.

By contrast the commercial case for providing law and management courses at volume, using as much online

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1 'Understanding the Market of Alternative Higher Education Providers and their Students in 2014'. Report commissioned by the Department of Business, Innovation, and Skills from IFF Research (May 2016). Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/524453/he-alternative-providers-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524453/he-alternative-providers-2014.pdf) (accessed 15th June 2016).

material as possible to bring down costs, is much clearer. We will have to wait and see what mix of new provision emerges, and check that the legislative framework is rigorous enough to limit the scope for abuse by opportunists.

Other potential benefits are already more apparent. There are parts of the country where higher education provision is scarce. The government has mentioned, for example, a project for a new university in Herefordshire. If entrants examine the geographical pattern of existing provision and seek to fill the gaps, this is beneficial for potential students in those areas, who will gain the choice of living at home while going to university, rather than being compelled to move away. It will also be beneficial for the local economy, where the skills and knowledge of new graduates will be put to use. All too often, students that move away from an area to go to university never come back.

Equally, the opening for new providers comes as the Prime Minister has set an ambition to double the higher-education participation rate of young people from disadvantaged backgrounds. Existing providers have to raise their game on access. Our work at the Social Market Foundation shows, for example, that there is huge variation between universities in the proportion of students they admit from disadvantaged backgrounds. On the one hand, 10 institutions account for around a third of the total improvement across the sector in participation of these young people – and, on the other, the bottom half of institutions, in terms of progress on this front, have contributed barely a tenth of the improvement.<sup>2</sup> While the institutions in this half of the distribution can do more, new providers – who from the very beginning are trying to widen access – may speed that improvement.

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2 Social Market Foundation, 'Widening participation in higher education' (2016). Available at <http://www.smf.co.uk/publications/widening-participation/> (accessed 15th June 2016).

The risk is obvious, and it goes back to the quality issue: if new providers are on the whole lower quality, and they draw mainly on students from disadvantaged backgrounds, then the Prime Minister's ambition may be achieved on the surface without the benefits it is supposed to bring in terms of social mobility. It is easy enough to predict that – unless new provision is of exceptionally high quality – students from wealthier backgrounds, more of whom have better school outcomes, will continue to prefer well-established, highly selective institutions.

Nevertheless, even if new providers on the whole have low or mixed quality profiles, they would still increase the pressure on existing providers, some of whom have serious quality issues to tackle themselves. Several institutions have declining numbers of students. Applicants have turned away from them, because either (1) the offer no longer justifies the cost after the introduction of top-up fees, or (2) other institutions have expanded at their expense. The entry of new providers would be an additional element in the mix, eroding the competitive position of these incumbents even further.

#### Wider changes to competition in the sector

This is a good point to turn towards wider changes to competition in the sector. The entry of new providers is far from the only disruption that will take place over the next few years. Through higher fees and the removal of student-number controls, the competitive environment has changed already. Now there are proposals for three further changes of similar scale.

The first is on fees, again. The cap on fees will rise, according to Government's proposals, though only in line with inflation and for those institutions which win the top rating in the new Teaching Excellence Framework. In other words, for all other institutions, the funding available for teaching will decline in

real terms. At the same time, institutions are filling deficits on pension schemes, under pressure on pay and conditions from staff, and investing in facilities to improve or even sustain student recruitment. Inevitably, under this economic pressure, some institutions will close poorly performing courses or departments. Others will experiment with new ways of delivering teaching and learning, for example relying more on online provision. Perhaps only high-quality provision will survive and new combinations of high-quality provision will emerge – or it may be that the best-managed provision will win out.

The government could ease the conditions in which these adjustments take place by letting fees go up higher than envisaged. The politics behind such a move are difficult however, not least because many politicians believe that universities provide poor value for money. Government might prefer squeezing them under a tight fees cap for a few years rather than allowing the cap to rise further, even if this speeds up processes of adjustment in the pattern of provision.

The second change to the competitive environment will be in switching arrangements for students. Alongside the White Paper, the government has produced a consultation paper seeking solutions to improve these arrangements. Very few students switch institution after entry. This is problematic for two reasons. First, perfect matching between students and institutions at the point of entry is unlikely. Young full-time undergraduates apply before they have their exam results and often on the basis of limited information, advice, and guidance. Once they have done a few months or a year at the institution to which they won admission, they have much more information and might make an improved choice about where to study – if the opportunity to transfer was readily available. Second, the absence of switching is concurrent with high drop-out rates from some universities. In other words, some of the students who drop out entirely from higher

education might continue if they could transfer to another institution more straightforwardly.

Improving the arrangements for switching – for example, by asking UCAS to run an annual transfer window – would make progress towards solving these problems. We can envisage a process run by UCAS towards the end of every academic year when existing students can apply to complete their degrees at other institutions, perhaps including one they narrowly failed to get into previously, where a favourite lecturer has recently moved, or student facilities have improved. Institutions themselves might go poaching for students they want to recruit to top up their previous intake. While some of the benefits in terms of improving matching between students and courses or driving up completion rates will come from students moving, the prospect of transfers will equally mean that institutions become more focused on the progress of their existing students. To avoid them leaving, they are likely to improve the teaching and learning they provide.

Once this starts happening on a meaningful scale, the impact on competition between providers is likely to be substantial. Today, institutions only compete for each cohort of students at the point of admission; in a system with more switching, they would compete repeatedly for the same cohort of students. This is likely to magnify differences in success and failure: institutions that are growing on the basis of winning a larger share of entrants may go on to win a larger share of first-year switchers, too. On the flip side, institutions with shrinking first-year intakes may find that their second-year and subsequent cohorts become even smaller.

The third change in the competitive environment has a similar, magnifying effect on success and failure in recruitment. The government has indicated that it will be a regulatory requirement for institutions to have a student protection

plan – a plan for how students will be transferred to another institution, or taught out to the end of their courses, in the event of institutional failure. This is pragmatic and sensible. The practical consequences are considerable. It may mean, for example, that institutions will have to show that they have sufficient funds in reserve to pay for students to be taught out. If they do not have those funds, budget cuts may be precipitated. Institutional failure itself, or more dramatic steps to forestall it, such as merging with another institution, may have to be considered too. In practice, the government is likely to seek less rigour from student protection plans than my version envisages, at least initially, but the new regulatory requirement will certainly focus minds among university councils. At the very least, the government is now looking squarely at the prospect of institutional failure in a way that it has rarely done in the past.

## Conclusion

Adding these three changes – fees, switching arrangements, and student protection – to the impact of new providers coming into the market suggests that we are moving into a period of significant and perhaps unprecedented disruption in higher education. For the moment, this new scope for disruption is underestimated within the sector as well as inside the government. Once it has begun, stopping it or managing it will be exceptionally difficult. Yet its risks and benefits will become apparent only slowly. As they do, there will be a high premium on strong stewardship and management in institutions. There is also likely to be significant popular and political discomfort with some of the results, most notably the failure or the rapid restructuring of some large institutions.

Higher education has had the characteristics of a market for a very long time. Now the competitive pressure on institutions is rising. The real test of whether we are comfortable with higher education as a market is ahead.

## 4. Trade-offs and synergies in higher education: where our government gets it wrong

– **J. R. Shackleton**

Universities and other higher education institutions have a range of functions. The two most obvious are teaching and research. Over time, the balance between these has fluctuated, and in recent years it has been claimed that, in the UK at least, we have pursued research too keenly, with teaching suffering as a consequence. A reaction to this is the proposed Teaching Excellence Framework for English universities.

But these are not the only functions higher education serves. One important, though sometimes neglected area, is what has come to be called ‘knowledge transfer’. This includes activities such as consultancy, proprietary research, training and other services provided to business, but also other ways in which universities can interact with society and have an impact outside the academic hothouse, for instance via the media.

Research, teaching, and knowledge transfer are all examples of what the sociologist Robert Merton called ‘manifest’ functions: they are visible; those involved in higher education and the general public are aware of and broadly support them; and they are openly discussed. Also increasingly discussed, however, is one previously ‘latent’ function of higher education – its impact on economic inequality via the access it offers to key occupations. This is something to which

governments are paying increasing attention, sometimes causing considerable tensions with institutions. Another latent function is the impact of universities on wider society as liberal institutions promoting democracy, free speech and enlightened and civilised discourse. Writing in a less demotic era, Lord Robbins spelt out in his famous Report (1963) that a 'properly balanced system' should involve not only 'instruction' (a word, incidentally, for which you would search in vain in modern policy documents) in skills, but should also aim to produce 'cultivated men and women' and to 'transmit a common culture and common standards of citizenship'.<sup>1</sup> This is worth reiterating, in a time when significant numbers of students want to segregate themselves, create 'safe spaces', and ban from campuses speakers who do not conform to their view of the world.<sup>2</sup>

This chapter discusses these functions, and how they interact, in the context of current government policy in England. As responsibility for higher education has been devolved to the nations of the United Kingdom, policy varies a little in Wales, Northern Ireland, and (especially) Scotland. The same issues, however, are debated throughout the UK, and indeed in many other countries.

## Teaching and research

I begin by looking at the relationship between teaching and research. It is often claimed that university teaching can be distinguished from school teaching and vocational training

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- 1 'Committee on Higher Education Report' (the Robbins Report), Cmnd 2154 (1963). Available at: <http://www.educationengland.org.uk/documents/robbins/robbins1963.html> (accessed 15th June 2016).
- 2 According to a survey conducted for the Higher Education Policy Institute (HEPI), over a quarter of respondents would ban UKIP speakers from campuses, and two-thirds would support the use of 'trigger warnings' to allow those potentially offended by lecture subject matter to walk out. N. Hillman, 'Keeping Schtum? What students think of free speech', Higher Education Policy Institute Report 85 (2016) Available at: [http://www.hepi.ac.uk/wp-content/uploads/2016/05/Hepi\\_Keeping-Schtum-Report-85-Web.pdf](http://www.hepi.ac.uk/wp-content/uploads/2016/05/Hepi_Keeping-Schtum-Report-85-Web.pdf) (accessed 15th June 2016).

because of the added value that comes from having teachers who are research-active. How does research support teaching? It is reasonable to argue that most teaching staff need to have a continuing involvement in research activity at some level, as it feeds into the development of up-to-date syllabuses and gives lecturers a firmer base for the analysis they develop in their lectures and classes. It enables them to offer in-depth and original answers to many of the difficult questions which good students are expected to ask. This in turn boosts those students' confidence in and enjoyment of the courses they are studying, and may inspire many of them to go on to further study.

However it is also reasonable to query some of the more expansive claims for the synergies between research and teaching. In many fields, for example law, accounting, architecture, some areas of medicine, and the arts, students are probably most effectively taught by practitioners (often part-time) who may rarely, if ever, conduct formal academic research. Requiring all staff in these areas to have doctorates and be publishing regularly in highly rated journals, as some institutions do, may be counterproductive.

Even staff in traditionally research-intensive disciplines will usually be doing at least some of their teaching in fields in which they are not currently research-active. It is important that they prepare as thoroughly as possible even for what they regard<sup>3</sup> as the less exciting or attractive modules, and that they resist the temptation to structure courses towards their own interests, rather than the needs of students and their likely employers. It is also important that their lectures and classes are pitched at an appropriate level – which is difficult to ensure when you have to introduce first year students to concepts and methodologies with which you operate at a higher level of complexity. Much undergraduate teaching involves working

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3 It is sadly very common for academic staff to prefer teaching postgraduates to undergraduates, and final-year undergraduates to first years.

on modules which are studied by students from many different disciplines, and it is important not to privilege those who are primarily working in your subject area and treat non-specialists as somehow less important.

Most worryingly, heavily committed researchers can be so involved with their current projects – often with crucial deadlines – that they neglect class preparation, mark coursework superficially, fail to return assignments on time, and offer students little opportunity for one-to-one discussion of problems that arise in their studies. Particularly prominent researchers, indeed, may be virtually invisible to undergraduates, doing little teaching and frequently absenting themselves from even this limited involvement to attend conferences, give evidence to committees, and appear on TV or radio.<sup>4</sup> While some students complain about this, many don't – perhaps because it conveniently reduces their own workload. Writing about this tendency in the US context, David Palfreyman and Ted Tapper talk of a 'mutually convenient disengagement contract amongst distracted academics and instrumentalist students'.<sup>5</sup>

If the relationship between teaching and research can be antagonistic as well as supportive, what is the overall picture in practice? Many studies have attempted to assess this empirically, using measures of research output and teaching quality. In reviewing a large number of such studies, uz-Zahman argues that they demonstrate that 'research and

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4 Quality Assurance Agency for Higher Education, 'What Students Think of Their Higher Education: Analysis of Student Submissions to the Quality Assurance Agency for Higher Education in 2012-13', QAA 944 (December 2014), p. 8. Available at <http://www.qaa.ac.uk/en/Publications/Documents/What-Students-Think-of-Their-Higher-Education.pdf> (accessed 15th June 2016).

5 D. Palfreyman and T. Tapper, *Reshaping the University: the rise of the regulated market in Higher Education* (Oxford: OUP, 2014), quoted in Department of Business Innovation and Skills, 'Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice', Cm 9258 (May 2016), p. 12. Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/523396/bis-16-265-success-as-a-knowledge-economy.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523396/bis-16-265-success-as-a-knowledge-economy.pdf) (accessed 15th June 2016).

quality teaching are not contradictory roles'. In his assessment, the evidence indicates the relationship may be modestly positive (with a correlation of around 0.10, although he suggests that 'the overall quality of the statistical analyses is not high'). Interestingly, though, the relationship 'is likely to be stronger at postgraduate than undergraduate levels'<sup>6</sup> – an important point, since most of the current policy discussion is concerned with undergraduates.<sup>7</sup>

### University research in this country: the Research Excellence Framework (REF)

Historically, the research function as we now perceive it was very limited in higher education. Until the late nineteenth and early twentieth centuries, British universities were largely identified in the public mind with Oxford and Cambridge, which on a positive reading were centres of scholarship and the transmission of knowledge. On a negative reading they were centres of indolence, occupying young men (women didn't get a look in) none too strenuously for three years before they embarked on careers in the church, the army or public administration. Staffed largely by unmarried scholars, supported by historic endowments, their curriculum was disproportionately centred on the classics, theology and philosophy, with more practical disciplines largely eschewed. Some of the emerging provincial universities were more open institutions, but experimental scientific research was largely conducted outside higher education, by eccentric individuals, learned societies or 'mechanics institutes' without a university title. There was little or no government funding of research, or even much concern about it.

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6 M. Q. uz-Zahman, 'Review of the Academic Evidence on the Relationship between Teaching and Research in Higher Education', Department for Education and Skills Research Report 506 (2004). Available at <http://webarchive.nationalarchives.gov.uk/20130401151715/http://www.education.gov.uk/publications/eOrderingDownload/RR506.pdf> (accessed 15th June 2016).

7 Postgraduates now account for up to a quarter of all HE students.

A very different approach developed in Germany in the second half of the nineteenth century where the Humboldtian model saw a much more state-directed higher education with standardised and competitive undergraduate and higher degrees, and a strong emphasis on science. This model crossed the Atlantic to influence the diverse and rapidly growing US university system – which is a hybrid with Germanic focus on higher degrees and research, but with a concern for a broad undergraduate experience.

Today's UK higher education landscape is very different from its past. Institutions are far larger, the participation rate approaches 50 per cent, and governments play a major role in determining the policy of what are still, however, nominally private bodies. UK governments now regard research as an essential feature of a university and have set up mechanisms – the 'dual system' – to channel state funding to institutions.

The Research Excellence Framework (REF) assesses university research in order to inform the allocation of Quality Research (QR) funding, part of the 'dual system' of government support for research. REF 2014 was the latest in a series of exercises previously conducted in 1986, 1989, 1992, 1996, 2001 and 2008.

Distributed through the national higher education funding councils (HEFCE in England), QR money provides direct but mainly non-specific support for higher education institutions' research efforts, based largely on a backward look at achievements in a reporting period of several years.<sup>8</sup> Slightly different systems exist in Scotland, Northern Ireland, and Wales, but in England, HEFCE allocates around £1.6 billion QR funding, which comes from the Department for Business, Innovation and Skills as part of an annual budget settlement.

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8 REF 2014 assessed work published between 1st January 2008 and 31st December 2013.

The Research Councils<sup>9</sup> are the other part of the system: they allocate funds largely to support particular projects which researchers propose to conduct in the future. These are often grouped into priority programmes determined from time to time by the Councils.

The Research Councils allocate a larger sum, over £2.6 billion in 2014-15 – although some of this went to research organisations outside the HE sector. The government also supports a number of bodies such as the UK Space Agency, the Royal Society, and the British Academy, some of whose work is contracted to universities. In total the government spent £5.8 billion on research in 2014-15, including capital funding, a large part of which went to higher education institutions. Universities also receive a large but variable amount of private research funding from charities and businesses.

The 2014 REF involved submissions from 154 higher education institutions, covering 52,061 academic staff, 191,150 research ‘outputs’ (mainly papers in peer-reviewed academic journals) and 6,975 ‘impact case studies’. These, an innovation in 2014, were intended to show how the research conducted by institutions has a value to the rest of society.

The submissions were assessed by 36 subject-based ‘sub-panels’, grouped under four main panels. These ‘research users’ took many months to read and review the submissions. At the end of their deliberations they classified submissions into four categories. The classification was based on subjective judgements relating to the quality and impact of the work, and the institution’s ‘research environment’.

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<sup>9</sup> The Arts and Humanities Research Council, the Biotechnology and Biological Sciences Research Council, the Economic and Social Research Council, the Engineering and Physical Sciences Research Council, the Medical Research Council, the Natural Environment Research Council, and the Science and Technology Facilities Council. The government has announced that they are to be brought under an umbrella body called UK Research & Innovation, together with Innovate UK (a government agency investing in science and technology) and HEFCE’s research and knowledge exchange functions.

The cost was officially estimated at just under £250 million,<sup>10</sup> though some have claimed its real costs were higher.

The classifications were as follows: 30% of all research submitted was adjudged to be *'world-leading'*; 46% *'internationally excellent'*; 20% *'recognised internationally'*; and 3% *'recognised nationally'*. Submissions classified in the top category rose from 14% in 2008 – more than doubling in six years. Given that more staff were submitted, and that government research funding had fallen in real terms, this was trumpeted as a major triumph for the UK's researchers. It may seem rather implausible, reminiscent of education secretaries hailing ever-better GCSE results as evidence of underlying improvement in schools. Quality judgments, though leavened by some input from assessors from non-UK universities and the use of rankings of journals in which articles are published, were still basically the subjective views of British academics with a collective interest in 'bigging up' the UK's performance.

The first attempts in the 1980s to assess research quality were driven by an awareness that university staff were usually contractually required to conduct research, and were funded in the block grant under the old University Funding Council system on the assumption that part of their time was spent doing that. However, there was no mechanism for monitoring what was being done. The Research Selectivity Exercise, as it was then known, aimed to provide a rational basis for the use of this funding.

The introduction of research funding selectivity had a salutary effect on universities, making them much more aware of the way in which funding was being used and leading to serious

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10 K. Farla and P. Simmonds, 'REF Accountability Review: costs, benefits, and burden'. Report by Technopolis to the four UK higher education funding bodies (July 2015). Available at [http://www.technopolis-group.com/wp-content/uploads/2015/11/REF\\_costs\\_review\\_July\\_2015.pdf](http://www.technopolis-group.com/wp-content/uploads/2015/11/REF_costs_review_July_2015.pdf) (accessed 15th June 2016).

internal discussions about how to organise and support research. However there have been diminishing returns to successive iterations of assessment exercises. The REF has taken on a life of its own, and has come to dominate thinking about university research in a narrow and unhelpful manner. The impact of the REF on higher education institutions is probably one of the best examples in public finance of a tail wagging a dog; the funding available from the exercise is less than 5 per cent of total university income.

The lessons of central planning suggest most target measures of performance can be gamed, and the REF is no exception. For instance, against a rising UK trend of staff being submitted to REF 2014 compared with RAE 2008, Cardiff University sharply reduced the number of staff submitted (from 1,038 FTE to 738). By omitting staff with weaker research records it boosted the average score of the staff submitted and thus became the UK's sixth-ranked university in terms of quality ratings. In England the funding gain from this higher quality rating would have been offset by a loss of funding from the volume measure. In Wales, however, funding allocations are not linked to staff numbers in the same way. Cardiff was thus able to pursue a strategy which was not open to its English counterparts.

Even in England, such gaming is often worthwhile because of the relatively small sums of money allocated to most institutions by the REF: the marketing value of a high ranking can be worth more than the funds allocated through including a higher proportion of established staff. Thus potential students can be significantly confused about the true research strength of institutions. Across the UK, of 194,000 academic staff in post in 2013-14, only 52,000 were submitted to REF 2014. Within some universities this selectivity was carried to absurd lengths, with cases of departments with more than a hundred

staff being represented by fewer than ten individual submissions. Quality scores for handfuls of staff are then used misleadingly to advertise the research strength of departments and universities.

Preparation for the REF has distorted priorities within universities. Academics focus efforts on ‘salami-slicing’ research to obtain four key journal articles within the submission period, rather than on longer work such as books, reports and monographs. Key staff have cut back on bread-and-butter undergraduate teaching (which has been covered by casual lecturing staff and doctoral students), and other contributions to university life. Thus the total costs of the REF are not confined merely to the expense of the bureaucracy involved, but include the costs arising from the misallocation of staff time.

There has also been an element of ‘poaching’ of key staff, rather in the manner of Premier League football teams competing for limited talent. This may boost one institution’s score at the expense of another, but does nothing to boost the sector’s total research output, and may bid up and distort academic salaries.

In addition to the gaming described above, there has also been some sharp practice. The REF has led to the attribution of work partly conducted by junior researchers on temporary contracts to permanent staff. There has also been a proliferation of small fractional contracts (0.2 for example), which has enabled staff with limited or non-existent commitment to a university to be counted on its scoresheet.

Moreover, as time has gone on, it has become clear that, despite the much-vaunted existence of pockets of high-quality research in most universities, research excellence is in fact highly concentrated in a limited number of institutions.<sup>11</sup>

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11 According to one study ‘exceptional achievement is in significant part the result of the outstanding performance of a very small number of individuals in an even smaller number of institutions. The majority of the research done in this country – throughout the sector,

The Russell Group, which includes Oxford and Cambridge universities, consists of only 15% of the UK's higher education institutions, but is responsible for 68% of what REF 2014 has adjudged to be 'world-leading' research. Within the Russell Group, research excellence is even more concentrated, with Oxbridge, Imperial College, University College London and the London School of Economics being clear leaders.

If it were necessary to find alternative criteria to distribute HEFCE funding for research, this could easily be done. Given the small amounts of money involved, ratings based on citations, external research grant funding and research degree completions would generate a pattern of concentration in leading universities sufficiently close to that which the REF produces to make no material difference to the overall funding of universities. Assessing the long tail of institutions that receive small amounts of QR funding does not justify the time and resources spent on the REF. For those institutions outside the research elite, the REF is a distraction which can undermine teaching and student support. Arguably, it also misleads the public, as a few research successes are presented as typical of the institution as a whole.

So, whatever salutary effect the introduction of research funding selectivity once had, the REF no longer serves a useful purpose and should not be repeated, as currently projected, in 2020. Funds should gradually be switched towards the Research Councils, which already allocate the bulk of government research funding (and which have a backlog of alpha-rated, peer-reviewed projects which cannot currently be funded). This would have the incidental benefit

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from the most exalted institutions to the least, and from those that have received the most research funds to the least – is very much more modest.' J. Adams, and K. Gurney (2010), 'Funding selectivity, concentration and excellence – how good is the UK's research?', para. 39. Available at [http://www.rin.ac.uk/system/files/attachments/Funding\\_selectivity\\_concentration\\_\\_excellence\\_-\\_Exec\\_Summ.pdf](http://www.rin.ac.uk/system/files/attachments/Funding_selectivity_concentration__excellence_-_Exec_Summ.pdf) (accessed 15th June 2016).

of increasing the funds potentially available to non-university research institutions. These currently conduct a significant amount of applied research, but cannot get support through QR money. Any remaining need to fund institutions, rather than projects, should be based on already-available research metrics.

There is, separately, a case for reducing the total amount of government subsidy for research and expecting universities to generate their own resources for research and scholarship (possibly through greater emphasis on knowledge-transfer activities) or support it by reducing overhead costs. While there may be external benefits justifying support for some types of science and technology research, in many disciplines research has a value largely in developing academic understanding which should feed into teaching and therefore be supported by top-slicing student fees.

### The Teaching Excellence Framework

There is a widespread feeling that something needs to be done to redress the perceived imbalance in universities between research and teaching. Sir Anthony Seldon, for instance, argues that we need ‘to enhance, professionalise and make more consistent the quality of teaching at British universities for undergraduates and postgraduates’. We might all agree on that. But he qualifies this by saying it should be done ‘without burdening universities with a heavy bureaucracy which will take excessive time and money, and run the risk of resulting in drab, formulaic teaching’.<sup>12</sup>

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12 A. Seldon, ‘Solving the conundrum: teaching and learning at British universities’, Social Market Foundation (2016), p. 6. Available at: <http://www.smf.co.uk/wp-content/uploads/2016/04/Social-Market-Foundation-Teaching-and-learning-at-British-universities-Embargoed-0001-030516.pdf> (accessed 15th June 2016). Sir Anthony defines ten different features which all great teaching involves, and suggests every teacher should be graded on a five-point scale. Quite how this could be done ‘without excessive time and money’, however, is difficult to see. Why government should want to do it, since Sir Anthony doesn’t believe funding should be linked to teaching quality, is also obscure.

Cynics would argue that belief in the ability of government to drive this effort is only a little more rational than belief in the Tooth Fairy. In the wider economy, government intervention in the economy is too often characterised by the creation of new problems, to which the ‘solution’ is further intervention, which in turn creates new problems of its own. Something of this sort may be happening with higher education. Instead of scrapping or downsizing the REF to redress the balance in favour of teaching, we are keeping the REF and introducing a huge new Teaching Excellence Framework (TEF).<sup>13</sup> This is justified, it is argued, by the need to protect students against poor teaching, to ensure transparency (so students know what type of teaching they will get in advance) and value for money. But the danger is that we are creating one behemoth to offset another.

The TEF, to be introduced gradually over a number of years, will initially assess institutions (though subjects within institutions will be tackled at a later stage). The White Paper setting out the government’s proposals says that judgments will be made against a set of criteria, yet to be precisely determined, by ‘an expert panel, chaired by a respected expert and involving students, employer representatives and a widening participation expert’.<sup>14</sup>

The Department for Business Innovation and Skills says that these judgments will be based on ‘a combination of core metrics (the National Student Survey; retention; proportion in employment or further study; and a high skilled employment metric) as well as additional evidence submitted

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13 See Department of Business Innovation and Skills, ‘Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice’, Cm 9141 (November 2015). Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/474227/BIS-15-623-fulfilling-our-potential-teaching-excellence-social-mobility-and-student-choice.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/474227/BIS-15-623-fulfilling-our-potential-teaching-excellence-social-mobility-and-student-choice.pdf) (accessed 15th June 2016), and Department of Business Innovation and Skills, ‘Success as a knowledge economy’, op. cit.

14 Op. cit., p. 47.

by the provider. The assessment process will explicitly take into account outcomes for disadvantaged groups.<sup>15</sup>

As a result of these deliberations, successful institutions will be given an award on a three-point scale: 'Meets Expectations', 'Excellent' and 'Outstanding'. On the basis of these awards, institutions will be able to raise undergraduate fees slightly above the current level. Those failing to reach the basic level may have to cut fees. Whether that will be enough to motivate institutions to aim for the higher grades is as yet unclear. It is also an open question whether the information content of these grades will be sufficient to influence student choice as is intended: a university-wide grade will inevitably cover a wide range of disciplines. While the publication of a wider selection of indicators may help prospective students, it will still be difficult for someone wishing to study geography to decide whether they will get better subject teaching at University A than at University B.

There are a number of concerns about this scheme. One is the likely proliferation of information requirements. There will be pressure for the 'additional evidence' to be provided on submissions to be increased over time.<sup>16</sup> Incidentally this additional material seems likely to offer a means for universities with a strong research record but poor teaching scores still to secure a favourable rating by bringing in claims for 'research-led teaching' and so on. There are a number of Russell Group universities, for example, which have received mediocre ratings in the National Student Survey.<sup>17</sup> The furore

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15 *Ibid.*, p. 40.

16 The White Paper suggests a maximum of fifteen pages additional evidence. On the precedent of similar evidence (such as grant submissions), panels will probably also have to specify font size, line spacing and the use of appendices to keep documents to manageable proportions. The doctrine that 'less is more' is anathema to educational bureaucrats.

17 Not that such assessments should be taken uncritically. Students at campus universities typically rate their experiences higher than those studying in the centre of large cities,

which would greet a top research university getting a low TEF grading, and thus reduced funding, would be difficult for governments to handle.

Getting good results in this TEF will be crucial, as otherwise institutions will otherwise not be able to raise fees in line with inflation. Students at such institutions will suffer twice over: the 'bad' teaching will lead to lower funding and thus less resources. The inevitable downward spiral means some students will want to bail out to other institutions. Consultations are to be held about how to make this easier, presumably by aligning all universities' undergraduate degree structure and content even more closely. (Degrees are arguably already too homogenised as a result of 'subject guidelines' imposed from above, a kind of 'national curriculum' for grown-ups.)

All this is to be overseen by another new bureaucracy, the 'Office for Students' (OfS) which will act as regulator for the sector. This will be tougher, we are advised, than the old Higher Education Funding Council, and will not hesitate to close down failing providers. However we have seen this kind of tough stance from governments before. It often evaporates when faced with political difficulties. It is difficult to see the OfS closing down, say, a large institution in a depressed region because a small team of part-time adjudicators don't like the numbers, or because of the lecturing styles of the few lecturers they have managed to talk to in a three-day visit, or the fact that too few of their students get into graduate jobs at the end of their degrees. The anger of students, staff, parents, local authorities, and employers would surely lead to yet another governmental U-turn.

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while some types of students (art students, for example) consistently rate teaching lower than students in other disciplines, suggesting that personality and attitude issues need to be taken into account.

Another problem may be getting panels together. As Darian points out in her essay in this volume discussing lessons from other sectors, there are concerns about getting sufficient panel members of the appropriate level of expertise. The White Paper rather glosses over this, talking about ‘academic experts in teaching and learning’ making up the bulk of the panels.

Selection of panel members has not generally been an issue in the Research Excellence Framework, but one can foresee difficulties with TEF panels, which will attempt in the initial years to review teaching right across an institution. While there is a respectable body of academic literature on teaching and learning, it is not a major research area and most universities have relatively few academics in this area. Seventy-six institutions – only about half our universities – submitted a total of 1442 staff in the Education Unit of Assessment in the most recent REF. Thirty per cent of submissions were considered 4\*, the top grade. Most of the empirical researchers would, though, have been studying schools, early learning, or vocational education: comparatively few study higher education. Many other researchers would have only been involved peripherally, their work perhaps being in the fields of the economics, philosophy or history of higher education. The number of top level experts in HE pedagogy must be quite small.

They will have to form judgments on teaching across the board, in disciplines as varied as medicine, fine arts, business studies, physics, economics – which use many varieties of teaching methods and attract different sorts of academics as well as very different types of students, with very different expectations. Without experience of teaching across all these areas, the panellists are inevitably going to have to place considerable reliance on metrics: it does not seem to be envisaged in the White Paper that they will observe teaching taking place. This is rather like REF panels not reading the research which institutions submit.

Instead there is the danger that adherence to current fashions and received wisdom will be taken as evidence of ‘good practice’. One example is the plan to supplement traditional degree classifications with ‘grade point averages’, a hobby-horse of Vice-Chancellors who have visited the United States. The White Paper specifically mentions this as something which might be used as evidence of teaching quality – though its relevance is not obvious.<sup>18</sup> There may also be a tendency to focus on input or proxy measures, such as the number of contact hours students have, and the qualifications of staff (including, most obviously, teaching qualifications), as measures of teaching quality.

There is also a greatly increased emphasis on ‘social engineering’, with universities being required to publish more and more detail about the gender, ethnicity and socio-economic background of their students, with the Director of Fair Access exerting greater pressure on institutions to alter their intake to meet intake targets, while the Office for Students monitors differential outcomes. Again this is mentioned in the White Paper as something which might be taken as evidence in a TEF submission.

### Social engineering

From Robbins onwards, it has been taken as axiomatic that increasing the numbers in higher education is A Good Thing. Academics, unsurprisingly, rarely question this orthodoxy – though employers and the general public are occasionally sceptical. If in doubt a study or two can usually be rustled up to show that, on average, graduates earn more than non-graduates by quite a distance. The White Paper, for example, quotes recent work by Walker and Zhu, suggesting that a male graduate will earn £170,000 more and a female

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<sup>18</sup> Op. cit., p. 47.

graduate £250,000 (in constant prices) more over their lifetimes, net of tax, than they would have earned with two A levels.<sup>19</sup>

While this is a very competent piece of econometric work, quoting headline figures obscures the fact that there are huge variations in the returns to a degree depending on the subject, the institution which the student attends, the class of degree obtained, and the career path followed, and a range of attitudes and aspirations that cannot be quantified. And inevitably there are cohort effects which cannot be anticipated: the fact that graduates obtained high returns in the past cannot necessarily predict what the next generation of students will obtain in a very different economic and demographic context.<sup>20</sup>

It may very well be that many students entering higher education simply as a means to a higher future income are making a mistake, and would be better off seeking another way into work or vocation<sup>21</sup> rather than running up a student debt which they will never repay. No government dare say this, and instead they push for ever more students in total. Increasingly, too, they put pressure on universities to recruit from parts of the population which are thought to be underrepresented in the ever-growing student population.

When top-up student fees were introduced, there were fears that this would deter some students from entering

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19 I. Walker and Y. Zhu, 'The Impact of University Degrees on the Lifecycle of Earnings: Some Further Analysis', Department for Business Innovation and Skills Research Paper 112 (August 2013).

20 Recent work by the Bank of England suggests that the premium obtained by graduates shrank by 11 percentage points between 1995 and 2015. See W. Abel, R. Burnham, and M. Corder, 'Wages, productivity and the changing composition of the UK workforce', *Bank of England Quarterly Bulletin* Q1 (2016) pp. 12-22.

21 For some, this might be an apprenticeship or study for a professional qualification. And for many young people with entrepreneurial flair or access to family or other networks, direct entry into business may make more sense than spending three years achieving a mediocre degree.

universities, and an Office of Fair Access<sup>22</sup> was set up to promote wider participation in HE: each university had to have an approved Access Agreement setting out its plans, and from 2012 universities have had to spend a proportion of their extra fee income above £6000 a year to finance bursaries and outreach programmes. Earlier this year, the Director of Fair Access was given new guidance, which included a goal of doubling the proportion of young people from disadvantaged backgrounds and an increase in the number of students from Black and Minority Ethnic (BME) backgrounds by 20% by 2020. Further targets included raising the participation rate amongst young white males from lower socio-economic groups and improving the retention and results of BME students, who generally do worse at university than whites.<sup>23</sup> These targets were reemphasised in the recent White Paper, which also sets out a ‘duty to publish application, offer, acceptance and progression rates, broken down by gender, ethnicity and disadvantage’.<sup>24</sup>

The targets seem rather arbitrary. A concern with setting outcome targets where some definable groups of students have poorer outcomes than others puts universities under pressure to improve their results without necessarily dealing with the underlying problems. The danger here is that this may lead to softening of targets for assessment and yet more grade inflation. Some reductions in drop-out rates are not difficult for institutions to engineer. Fewer students will fail the first year of degrees if challenging assessments (most obviously unseen examinations) are removed from

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22 This is to be absorbed into the new Office for Students, though its Director will retain his role in the new body.

23 J. Stevenson, ‘Black and Minority Ethnic Student Degree Retention and Attainment’, Higher Education Academy (2012). Available at [https://www.heacademy.ac.uk/sites/default/files/bme\\_summit\\_final\\_report.pdf](https://www.heacademy.ac.uk/sites/default/files/bme_summit_final_report.pdf) (accessed 15th June 2016)

24 Op. cit., p. 41.

the syllabus and easier coursework substituted. Typically such ploys are facilitated by the convention that external examiners do not trouble themselves with first year assessments.

Social mobility is never discussed in any sophisticated way in this sort of context, and politicians' focus is always on upward mobility. Education is believed to be an important way in which individuals from disadvantaged backgrounds have been able to achieve middle-class prosperity. Historically, it has been so – but that was when good quality, stable, lifelong jobs were expanding rapidly. Such *absolute* mobility was demand-driven: the growth of professional and managerial employment outstripped the supply of highly qualified personnel, and graduates reaped the reward. Although the quality of jobs is not worsening, the number of well-paid middle class niches is not growing as rapidly as in the past,<sup>25</sup> while the number of aspirants to those jobs continues to grow. The implication is that gains by those from disadvantaged backgrounds must now largely come at the expense of young people from more privileged backgrounds – an increase in *relative* mobility rather than the absolute mobility of the mid-to-late twentieth century. No politician will ever tell middle class parents that their offspring should tumble down the social ladder to let others take their place – but most parents realise the nature of the threat, and invest ever-increasing resources in home tuition and other forms of support to boost their children's chances. As the A level tariff associated with the most prestigious universities continues to rise, it becomes increasingly difficult for these universities to increase the proportion of students from disadvantaged backgrounds

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25 See J. Goldthorpe, 'Understanding – and misunderstanding – social mobility in Britain: the entry of the economists, the confusion of politicians and the limits of educational policy', *Barnet Papers in Social Research*, Department of Social Policy and Intervention, Oxford (February 2012). Available at [https://www.spi.ox.ac.uk/fileadmin/documents/PDF/Goldthorpe\\_Social\\_Mob\\_paper\\_01.pdf](https://www.spi.ox.ac.uk/fileadmin/documents/PDF/Goldthorpe_Social_Mob_paper_01.pdf) (accessed 15th June 2016).

without overt discrimination against well-prepared and highly qualified individuals from middle-class backgrounds.

A further problem is that broad categories of disadvantage are not particularly helpful. The category of 'Black and Minority Ethnic' is not a particularly useful one to use. Most BME sub-categories are over-represented in higher education compared with white British young people, but some – not all – of these sub-categories are under-represented in some subjects, in some high-prestige institutions. A broad target of a 20 per cent increase is not well-targeted. Similarly, the goal of increasing numbers from lower socio-economic groups is difficult to attain as this status is not unambiguously defined. In practice this is interpreted in geographical terms, with universities encouraged to recruit from areas with low proportions of higher education entrants.<sup>26</sup> The students recruited from these areas, however, may not necessarily be from poor family backgrounds.

There are clearly difficulties in attracting particular target groups to higher education – and some institutions face more difficulties than others. Many institutions are in locations, or offer subjects, that make it difficult to attract some types of students. Female Muslim students based in Birmingham or Blackburn are likely to face family opposition to moving to study English at Bristol University. White working-class boys from Newcastle may have little interest in studying animal husbandry at the Royal Agricultural University.

Recruiting students may be the easier part. Ensuring that these students are well-prepared for university may depend on building specific links with schools and colleges, which is time-consuming, expensive and only partly under university

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<sup>26</sup> HEFCE uses a classification system called POLAR (Participation of Local Areas) which focuses on low educational participation rates of young people. See <http://www.hefce.ac.uk/analysis/yp/POLAR/>.

control. Universities across the board can be expected to struggle to ensure that their non-traditional graduates get into attractive jobs; again this may depend on putting resources into links with employers who may not be willing to be involved with less glamorous institutions. Academic managers have to consider the balance of costs and benefits associated with such efforts. Even while students are with universities, it may be difficult to instil in them the habits of work and commitment without which even the most well-prepared and structured teaching will be fruitless. At a time when there are many distractions for young people – including part-time work to support their studies – it can be very difficult even for the most committed staff to generate the results which outside monitors such as the new Office for Students demand.

### Going forward

These three main government emphases – on research, teaching and the promotion of equality – mean that in the last few years, government influence over English universities has grown sharply despite direct government funding having been substantially reduced. While some of the policies government has imposed in the past may be widely supported, many may ask whether it is necessary for the Department of Business Innovation and Skills (not the most obvious home for university ministers, incidentally) to be increasing the requirements it places on higher education. Arguably substantial withdrawal by government may make more sense. While some of the more boastful claims about higher education in this country should be taken with a pinch of salt, broadly speaking the higher education sector is a success, not a basket-case failing industry in need of government intervention. While there are tensions as well as synergies between different HE functions, universities and colleges may be better placed to resolve them with less government intervention rather than more.

I have already suggested that the REF in its current form could be scrapped, with any QR-style base funding decided by available metrics rather than elaborate assessment procedures, and the bulk of direct government research and knowledge-transfer funding (which should anyway probably be cut back) coming via the research councils. Knowledge-transfer funding should anyway probably be cut back. In respect of the excessive emphasis on research, particularly in the non-scientific disciplines, ending the REF would itself serve to reduce that.

I doubt we need an elaborate TEF. In the scheme proposed, universities' funding will ultimately depend on their ability to conform to the views of alleged experts in teaching and learning. The exercise will likely prove expensive; will involve yet more gaming; and will rely heavily on backward-looking indicators, rather than innovatory styles of delivery.

The issue of linking teaching quality to funding in an era of full-cost fees is anyway anachronistic, and the government ought to be looking for ways to encourage more price competition rather than continuing to control prices. The issues of value for money and transparency for potential students, while important, can be dealt with largely by the application of consumer and competition law on the lines suggested by the Competition and Markets Authority.<sup>27</sup>

Government concern that students get the kind of higher education that equips them for the jobs market could be dealt with by involving higher education institutions directly in the funding of their students rather than trying

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<sup>27</sup> Competition and Markets Authority, 'UK higher education providers: advice on consumer protection law' (2015). Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/428549/HE\\_providers\\_-\\_advice\\_on\\_consumer\\_protection\\_law.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/428549/HE_providers_-_advice_on_consumer_protection_law.pdf) (accessed 15th June 2016).

to prescribe ‘best practice’ to very varied disciplines and institutions. A scheme proposed by Peter Ainsworth outlined in this volume, envisages universities offering contracts to their students, who agree to pay a given percentage of future earnings in return for free tuition.<sup>28</sup> At the moment universities suffer no effective financial penalty for admitting weak students and failing to prepare them adequately for employment – the cost is picked up by the government when graduates are unable to repay their student loans. Making universities dependent for their future funding on producing employable graduates would force them to concentrate their efforts on genuinely improving student performance rather than attempting to manipulate statistics and writing long documents about their teaching practices.

As for widening access and participation, it is not clear that universities need direct regulation on this or should be required to produce detailed agreements for the Office of Fair Access or the new Office for Students. Their performance on meeting targets plucked out of the air by politicians should certainly not be taken as an indicator of teaching quality, which is something else entirely. As quasi-public sector institutions most universities are already subject to the Equality Duty and this would require them to monitor their intake and differential performance anyway, in the same way as, for example, the National Health Service.

The White Paper fails to examine ways in which non-government bodies can help regulate standards. The government does not need to be as deeply involved in quality regulation as it is.

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28 See also P. Ainsworth, ‘Universities challenged: Funding Higher Education through a Free-Market “Graduate Tax”’, Institute of Economic Affairs Discussion Paper 57 (2014), available at [http://www.iea.org.uk/sites/default/files/publications/files/DP\\_Universities%20challenged\\_web.pdf](http://www.iea.org.uk/sites/default/files/publications/files/DP_Universities%20challenged_web.pdf) (accessed 15th June 2016); P. Ainsworth, T. McKenzie and A. Stroyny, ‘Incentive effects in higher education: an improved funding model for Universities’,

Many professional bodies in the UK accredit degree and other programmes, and their requirements are usually more rigorous than those of universities themselves. They have to be, because allowing weak candidates into the profession will ultimately damage existing professionals.

Another clear weakness of the White Paper is its parochial approach. Overseas students are rarely mentioned, nor competition with overseas institutions, nor the governance and regulation of higher education in other countries. In many disciplines, non-government regulation is international. Many of the UK's best business schools, for example, are accredited by bodies such as EQUIS and AACSB.<sup>29</sup>

Finally, to return to Lord Robbins' famous words, cited earlier: one important function he proposed was to 'transmit a common culture and common standards of citizenship'. Most universities would argue that they do this to some degree, but it is a task that has become much more difficult as a result of the proliferation of disciplines and the huge variety of ethnic, national, and religious cultures found in the modern British university. There is little governments can, or should, do in this area. The one attempt which has been made has been the rather ham-fisted Prevent Strategy, which places obligations on universities to prevent Islamist radicalism.

If that intervention in some respects threatens to narrow free speech within universities, there are also other threats from students themselves.<sup>30</sup> The increased no-platforming of what vocal minorities regard as dangerously controversial speakers,

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<sup>29</sup> EQUIS is the European Quality Improvement System, run by the European Foundation for Management Development, accredits business schools in 40 countries. One of its key criteria is the internationalisation of staff, students and teaching programmes. AACSB, the US-based Association to Advance Collegiate Schools of Business, accredits in 45 countries. Membership of these bodies is highly prized and programmes run by accredited schools can charge a significant premium in the postgraduate degree market.

<sup>30</sup> Hillman, *op. cit.*

and the US-inspired demands for ‘safe spaces’ and ‘trigger warnings’ may, if not firmly rebutted, undermine the spirit of free enquiry which still drives our best universities.

If the government’s role should be cut back, as I suggest, it might nevertheless be useful for it to remind university governing bodies that their privileged legal and tax status comes with responsibility to ensure that all who enter higher education must assent to some common principles of open discourse.

## 5. Returns to higher education around the world

### – Harry Anthony Patrinos

High returns to tertiary education signal that university is a good private investment, while the likelihood of positive spill-over effects for society means that encouraging expansion of higher education enrollment may be a smart move. This entails sustainable cost-recovery (via, for example, income-contingent student loans) and targeted subsidies to help improve access for the economically disadvantaged.

#### Rate of return

The rate of return to schooling equates to the value of lifetime earnings of the individual to the net present value of costs of education. For an investment to be economically justified, the rate of return should be positive, and should be higher than the alternative rate of return. For the individual, weighing costs and benefits means investing as long as the rate of return exceeds the private discount rate (the cost of borrowing and an allowance for risk).

The costs incurred by the individual are his/her foregone earnings while studying, plus any education fees or incidental expenses the individual incurs during schooling. The private benefits amount to how much extra an educated individual earns (after taxes) compared with an individual with less education. 'More' and 'less' in this case refer to adjacent levels of education – that is, university graduates compared to secondary school leavers.

The social rate of return includes the society's spending on higher education – for example, money spent on renting buildings and professorial salaries. The social attribute of the estimated rate of return refers to the inclusion of the full resource cost of the investment – the direct costs by government and the foregone earnings of students as they invest in their education. Ideally, the social benefits should include non-monetary benefits of education, such as the number of lives saved because of improved sanitation conditions followed by a woman because she has received more education. Given the scant empirical evidence on the social benefits of education, the social rate of return estimates are usually based on directly observable monetary costs and benefits of education.<sup>1</sup> Since the costs are higher in a social rate of return calculation relative to the one from the private point of view, social returns are typically lower than a private rate of return. The difference between the private and the social rate of return reflects the degree of public subsidisation of education – since the only difference is the addition of social costs.

## Recent estimates of returns to education

Attempts to estimate the economic rate of return to schooling stretch back to the 1950s. Yet it is only relatively recently that we have had such estimates for the vast majority of economies of the world. Montenegro and Patrinos report the latest comparable estimates of the private returns to schooling for

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1 E. Jimenez and H. A. Patrinos, 'Can Cost-Benefit Analysis Guide Education Policy in Developing Countries?' in *Handbook of Research on Cost-Benefit Analysis*, ed. R. J. Brent (London: Edward Elgar Publishing, 2009), chapter 4; P. Oreopoulos and K. G. Salvanes, 'Priceless: The nonpecuniary benefits of schooling', *Journal of Economic Perspectives* 25(1) (2011) pp. 159-184; G. Psacharopoulos and H. A. Patrinos, 'Education and Human Capital', in *International Handbook of Development Economics*, ed. A. K. Dutt, A. Krishna, and J. Ros (London: Edward Elgar Publishing, 2011), Volume 1 and Volume 2, chapter 24; G. Psacharopoulos and H. A. Patrinos, 'Human Capital and Rates of Return', in *International Handbook on the Economics of Education*, ed. G. Johnes and J. Johnes (London: Edward Elgar Publishing 2004), chapter 1.

140 economies.<sup>2</sup> There are significant wage increases associated with investments in education. The global average private rate of return to schooling is 10% per year of schooling. The returns are highest in Sub-Saharan Africa. The overall rate of return to one extra year of schooling for women is 12% and 10% for men.

<b>Priors and new stylized facts</b>	
<i>Priors</i>	<i>Now</i>
1. Private returns to schooling are positive	Yes: Private returns to schooling are 10%
2. Higher in low/middle income economies	Yes: Private returns highest in Africa
3. Returns highest at primary level	No: Private returns highest at tertiary level
4. Estimated returns higher for women	Yes: Returns higher for women at all levels
5. Returns decline modestly over time	Yes: Returns decline gradually

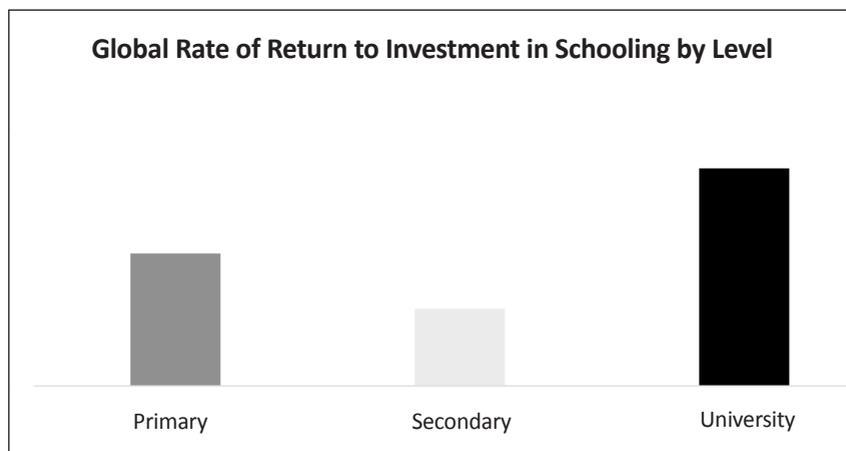
Sources: Priors: G. Psacharopoulos and H. A. Patrinos, 'Returns to investment in education: a further update', *Education economics* 12(2), pp. 111-134; Now: Montenegro and Patrinos, *op. cit.*

Education and work experience are the only assets many people have, which makes it important for students and their families, as well for providers and funders, to know the economic benefits of investments in schooling. Our research indicates that there are significant returns to schooling.

The private returns to university education are now higher than the returns to primary schooling. The returns to primary schooling are just above 10%, while returns to secondary schooling are only 7% – and the returns to university are 15%.

In most high income countries, the returns to higher education are slightly lower than the 15% global benchmark at 14.9%. For example, the returns to tertiary education in the EU range from 6.4% in Estonia to 14.5% in Portugal. In the five largest European economies – France, Germany, Italy, Spain, and

2 C. E. Montenegro and H. A. Patrinos, 'Comparable estimates of returns to schooling around the world', World Bank policy research working paper no. 7020 (2014).



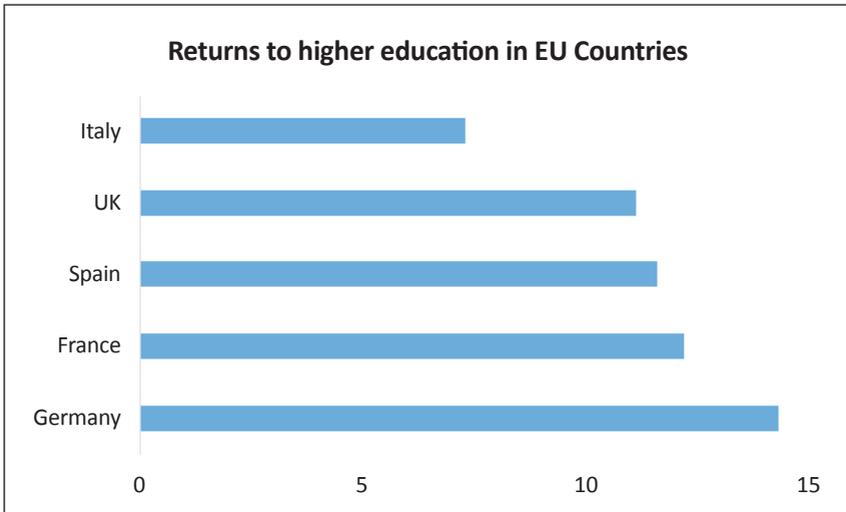
Source: Montenegro and Patrinos, op. cit.

the UK – the returns to tertiary range from a high of 14% in Germany to a low of 7% in Italy. The UK is exactly at the EU average of 11%. Overall, returns to tertiary education in EU countries are rising, with especially significant increases in Germany and the United Kingdom. Moreover, while the returns to tertiary in Europe are lower than the global average, they are still high compared with alternative investments, such as housing, treasury bills, and government bonds.

While the returns to an additional year of schooling tend to decline as the level of education rises,<sup>3</sup> the returns have only declined modestly in the past decades despite rising average years of schooling. This suggests that global demand for skills has kept the returns to schooling high.<sup>4</sup>

3 Psacharopoulos and Patrinos, 'Returns to investment in education', op. cit.

4 Indeed, there has been a tremendous increase in schooling attainment in recent decades. In 2010, the world population aged 15 and above is estimated to have had an average of 8 years of schooling, having increased steadily from just over 5 years in 1980 (see R. J. Barro and J. W. Lee, 'A new data set of educational attainment in the world, 1950-2010', *Journal of Development Economics* 104(C) (2013) pp.184-198). Average schooling has increased by 2% per year while the returns to schooling have declined by 0.1% a year. Therefore, another year of schooling leads to a reduction of the returns to schooling by one percentage point (see Montenegro and Patrinos, op. cit.). It is thus safe to say that education is a good investment globally, even considering only private monetary gain.



However, an economy should only invest in human capital up to the point where the rate of return yielded by the last trace of investment is equal to the rate of return yielded by the best alternative use of the resources. This means we should invest only so long as the social return – which includes the spill-over benefits to society – is greater than what we could achieve using other tools. We might not be able to obtain global estimates of the social benefits of schooling, but we can estimate full social costs: what the government provides in terms of schooling supply.

However, while policymakers need to know the social returns to schooling in order to justify any significant policy change, there are nevertheless some policy implications emanating from the finding that private returns to tertiary education are now higher than the returns to primary schooling.

The first policy priority should be to continue to focus public investment on the poor. This means expanding educational opportunities and raising the quality of primary and

secondary schooling. Poor quality education at the primary level limits opportunities for access to higher levels. A focus on the poor, starting with basic education, is thus also an investment in their future higher education.

The second priority is to expand higher education. High returns to tertiary schooling signal that university is a good private investment. Thus, fair, equitable, and sustainable recovery of the costs of providing university education from students is warranted.

High returns to tertiary signal that university is a good private investment

While high returns signal that tertiary education is a good private investment, this does not justify subsidies for all. It is much better to improve cost-recovery and use future earnings to finance current higher education. Given the likelihood of beneficial spill-over effects for society, the public priority should be to improve access for the economically disadvantaged.

Some might argue that the increasing returns to education are due to structural changes in the labour market: highly educated people may take jobs from the less-educated individuals, who, in turn, are driven into unemployment. However, the earnings data do not seem to confirm this hypothesis: if tertiary-educated individuals were to take medium-skilled jobs en masse, their relative wage premium would not have increased as much as it did. In addition, the wage premium increases with age, which suggests that the higher level of skills among tertiary-educated workers is reflected in their salaries. In times of crisis, and tough competition in the labour market, it is unlikely that employers would value skills as much as they do for no reason at all.

Higher education finance policy should be considered on the grounds of both efficiency and equity. While

education does raise productivity, it is nevertheless true that most of the gains are realised by individuals. Thus, high private returns do not necessarily imply that we should increase government university education funding. Indeed, establishing the same (zero) price for all is in fact inequitable. With the observed high returns to tertiary education, lowering the private cost of higher education would mean that taxpayers pay for the education of the relatively better-off.

But society does need graduates from higher education. Employers are demanding more skilled workers. At the same time, the costs of such education are increasing in a world with limited financing options. The public sector cannot, and should not, fund it all.

### Funding Tertiary Education with future resources

We need a fair and sustainable cost-recovery model at the university level, using future earnings to finance current education and targeted subsidies for tertiary education when appropriate.

To ensure quality, relevance, autonomy and accountability, much more will need to be spent on tertiary education. There are really only three sources of funds for higher education:

1. Public funds – which are scarce and not growing in most countries.
2. Private funds – which only help finance the education of the rich (with the exception of charitable bursaries or commercial discounts funded by private universities).
3. Future earnings – what graduates earn once they complete their degrees.

Public funds are not sufficient to both expand the system and maintain quality, and a reliance on fees will not help the poor.

Traditional student loan programs – which require automatic repayment upon graduation and rely on collateral and parental sponsorship – will not help expand opportunities. Nor do traditional student loans promote equity. Traditional loans are set up much the same way that mortgage payments are, and thus are sometimes referred to as ‘mortgage-like’. That is, traditional student loan programs involve fixed repayments with a set time period. The problem is that student default makes them unsustainable and costly, and the threat of default deters some prospective students. Much attention goes into collection. Most important, mortgage-type loans do not increase the amount of resources going into the system. They simply try to collect the amount lent and do not adjust to the income of students. Typical student loan programs may also be regressive – leaving graduates to amass staggering student debt – and penalise graduates excessively.

However, the third option – using future earnings to pay for today’s education – brings in new resources. These new resources allow governments and institutions to expand capacity. Income contingent student repayment programs do this by charging university tuition. All students ‘pay’ but they have the option of deferring payment until they graduate. Upon graduation, repayment is based on labour market earnings, collected through the income tax system. Payments are sensitive to the student’s ability to pay through an adjustable repayment period. The return for the investor is fixed, but it can fall below the initial value of the loan if income is not enough to repay the loan during a long period of time.

The experience of this system from Australia is positive. Income contingent repayment programs were first introduced in Australia with the Higher Education Contribution Scheme (HECS), established in 1989 to help university students finance their tuition costs at a time when tertiary education enrollments in Australia were relatively

low. Since then many countries have followed suit, including Korea, New Zealand, the UK and the United States. There are also prospects for income contingent loan programs in Chile, Colombia, Germany, Malaysia and Thailand.

A variation of income contingent loans are human capital contracts – also known as income share agreements – where payments depend on income until the repayment period ends. The intuition behind this solution is that students issue ‘equity’ in themselves and provide investors partial, temporary ownership of their human capital, in return for a share of their future earnings. The percentage of income and duration of payments is based on students’ expected earnings. Upon graduation, each student will pay  $X\%$  of income for  $Y$  years for each £100 of support received.

Recently, a number of companies have begun to commercially underwrite these types of contracts for the first time, including Lumni, Upstart, and Pave. Like income contingent loans, human capital contracts are better aligned with the financial interests of the receiver of the funds, and the stream of payments required should be relatively more affordable to individuals who experience adverse economic events, such as unemployment. However, legal and regulatory challenges remain, related to equity-like interests in humans, the relinquishments of personal freedom and autonomy, and questions of bankruptcy, tax, and consumer protection laws.

Part of the solution, of course, is to provide better and timely information – for example on the costs and benefits of different courses – to guide students in the decision-making process. Also, disadvantaged students are likely to need greater support networks in order to take on the challenge of succeeding in higher education and the world of work. As higher education expands, the system will attract students

from families in which no one has previously attended university.

### **Student Finance Options**

#### *Traditional loan:*

- Mortgage-type likely offered only to families who have enough assets to serve as collateral
- Payment fixed, maturity fixed
- Repayment amount: loan amount
- Subsidy: external
- Risk of returns on investment: only student

#### *Income contingent repayment:*

- Individual learners are confronted with the costs of study
- Individual learners are not exposed to too much risk
- Average tax payer does not bear education costs of (future) university-educated
- Repayment is low for those who end up with low income

#### *Human capital contracts:*

- Individual commits part of future income for period of time in exchange for financing
- Payment based on percentage of earnings
- Maturity is fixed
- Repayment amount is variable
- No subsidy necessary
- Risk of returns on investment to student and investor

## 6. A prosperous future for a market reformed higher education sector

– **Peter Ainsworth**

There is no sector of the economy that will offer better long-term employment prospects than higher education. As technological progress drives advances in robotics, software, and artificial intelligence, human beings will be replaced in most current occupations. Scholarship – the researching, development, and establishing of new knowledge – the type of work distinctive to the academic community – is one of the few activities where computers will remain uncompetitive and humans secure in their role.

While the activities associated with acquiring new knowledge will grow in importance in the future, to meet the need to stay ahead of the machine, it is not necessarily the case that current institutional forms associated with that endeavour will thrive. Computerisation accelerates research and has bred alternatives to the lecture hall. Those organisations that exploit the related efficiencies as they arise will gain at the expense of those that do not use them to adapt to the changing needs of society.

In particular, in relation to the role that higher education institutions (HEIs) have in preparing students for the workplace, they are likely to have to reimagine the service they offer. Rather than offering only the standard three-year, on-site, full-time undergraduate ‘product’, the value of which will erode quickly, they should become educational ‘utilities’ – providing learning ‘on tap’ over the working lives of their customers. They must re-orient themselves to meet the

needs and aspirations of those who are only once a student, but who will often need to refresh their knowledge and skills to sustain their employability throughout their careers.

For HEIs to adjust their offering and remain relevant they must be freed to experiment and offered appropriate incentives. This requires the elimination of much regulation, especially that which constrains the product that is offered and the price that is charged. To ensure that quality and relevance for employability are prioritised, and access, in spite of different fee levels, is maintained, the only workable solution is a market reform based on risk-sharing.

In this approach, the institution has a contractual relationship with its students based on their paying a share of their future earnings to compensate it for the degree-level education and subsequent support they received. This means access for all without students having to pay up front. It also ensures equitable fees – all pay in proportion to the benefit they gain. And it aligns the interests of graduates and HEIs for the long term, encouraging support for graduates as they progress through their careers. The Government's alternative, a statist, heavy handed, interference in HEIs' pricing, course design and customer profile, will prevent adaptation and erode the status and relevance of those that remain subject to it.

## The impact of automation

A substantial work was published in 2013<sup>1</sup> which estimated that 47 per cent of total US employment is at risk of displacement by computerisation within the next two decades. Given that the present generation of students, with retirement at 67 or later, will have working lives spanning more than four decades, by extension it is highly likely that the vast majority

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1 C. Frey and M. Osborne, 'The future of employment: how susceptible are jobs to computerisation?', 17th September 2013. Available at [http://www.oxfordmartin.ox.ac.uk/downloads/academic/The\\_Future\\_of\\_Employment.pdf](http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf) (accessed 16th June 2016).

of them will find that whatever career path they choose at the beginning will not stand them in good stead till the end.

The paper demonstrated that computerisation has extended beyond basic manual and administrative tasks to reach into the professions. In health care, it gave as an example the use of IBM's Watson, a technology platform that uses natural language processing and machine learning to reveal insights from large amounts of unstructured data, to provide chronic cancer treatment and care diagnostics. The computer can utilise data from 600,000 medical evidence reports, 1.5 million patient records and clinical trials, and two million pages of text from medical journals. With this wealth of information, far more than any human can absorb, Watson can compare each patient's individual symptoms, genetics, family and medication history to its database to diagnose and develop a treatment plan with the highest probability of success. In some tests it achieved 90 per cent accuracy of diagnosis versus 50 per cent for the human.

Some of the tasks historically performed by contract and patent lawyers are now tackled by sophisticated software programs. Computers can quickly scan thousands of legal briefs and precedents to assist in pre-trial research, something beyond human abilities. An example is Symantec's Clearwell system, which uses language analysis to identify general concepts in documents and which on one occasion analysed and sorted more than 570,000 documents in two days. Computers are not just competitive with human professionals, they outclass them. Remus and Levy<sup>2</sup> concluded that: 'automation is having a significant impact on the labour market for lawyers and that impact will increase over time'.

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2 D. Remus and F. Levy, 'Can Robots be Lawyers? Computers, lawyers, and the practice of law', 30th December 2015. Available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2701092](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2701092) (accessed 16th June 2016).

In financial markets, artificial intelligence algorithms can utilise a mass of real-time information (company announcements, statistical releases, price moves, etc.); apply an unbiased rule-set based on patterns that have generated good returns in the past; and then act on the logical conclusion instantly while the human trader is still reading the first piece of news. ‘Smart beta’ funds use software to mimic the strategy of a hedge fund or traditional manager at a fraction of the cost and are growing rapidly in popularity. ‘Robo advisors’ are undercutting human financial experts.

Since 2011, when the first Stanford MOOCs<sup>3</sup> were launched, the delivery of content through the medium of the internet has shown that elements of the service provided by HEIs can also be executed more efficiently with computerisation. By 2015, the number of people signing up to complete at least one MOOC course had soared to 35 million, more than the total of the previous three years. Around 1,800 new courses were announced last year, taking the total number of courses to over 4,000. Courses cover all disciplines – from the humanities and art & design, through the social sciences, education, and medicine to science, engineering and business.<sup>4</sup> Much of the development of MOOCs is taking place in the US and appears remote. But many of the courses are available to UK students and the internet shrinks distance.

With so many high skill occupations already seeing work leech away to machines, what will be left for humans? Frey and Osborne<sup>5</sup> established that, the higher the level of education required for an occupation, the lower was the risk of computerisation. They concluded that, in particular, ‘it

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3 Massive Open Online Course. For further information, see the Wikipedia entry at [https://en.wikipedia.org/wiki/Massive\\_open\\_online\\_course](https://en.wikipedia.org/wiki/Massive_open_online_course) (accessed 16th June 2016).

4 D. Shah, ‘By the numbers: MOOCs in 2015: how has the MOOC space grown this year?’, 21st December 2015. Available at <https://www.class-central.com/report/moocs-2015-stats/> (accessed 16th June 2016).

5 Frey and Osborne, ‘The Future of Employment’, op. cit.

seems unlikely that occupations requiring a high degree of creative intelligence will be automated in the next decades’.

The trends implied by Frey and Osborne’s analysis of the US labour market are apparent in shifts in the occupational structure of employment in the UK. ‘Working Futures 2014-2024’, a publication of the UK Commission for employment and skills, confirms a continuing change in favour of white collar and higher skilled jobs, suggesting significant employment growth for more senior occupations such as managers and most professional and associate professional and technical jobs – careers which require a higher level of education.<sup>6</sup>

HEIs are thus faced with both a significant opportunity and a real threat. On the one hand there will be growing demand for ever higher levels of education to develop an individual’s creative intelligence. On the other, as MOOCs improve, without evidence that the vastly greater cost of a traditional university experience has an adequate payback, an increasing number of students will find other routes to educational attainment.

Evidence of the deteriorating cost–benefit payback of a degree

A recent study led by the Institute for Fiscal Studies which, uniquely, had access to individual HMRC earnings reports, concluded that, at 23 out of 175 UK Universities, half of male graduates were earning less than non-graduates ten years after graduation.<sup>7</sup> For women, this was the case for graduates of nine institutions. Data from the Office for National

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6 R. Wilson, N. Sofroniou, R. Beaven, M. May-Gillings, S. Perkins, M. Lee, P. Glover, H. Limmer, A. Leach, ‘Working Futures 2014-2024’, UK Commission for Employment and Skills (UKCES) Evidence Report 100 (April 2016). Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/513801/Working\\_Futures\\_final\\_evidence\\_report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/513801/Working_Futures_final_evidence_report.pdf) (accessed 16th June 2016).

7 J. Britton, L. Dearden, N. Shephard, A. Vignoles ‘How English domiciled graduate earnings vary with gender, institution attended, subject and socio-economic background’, IFS Working Paper W16/06 (2016). Available at <http://www.ifs.org.uk/uploads/publications/wps/wp201606.pdf> (accessed 16th June 2016).

Statistics show that more than one third of graduates are still in non-graduate level employment five years after completing their studies.

While the ‘graduate premium’<sup>8</sup> is still relied on by government as the justification for encouraging more 18-year-olds to attend university, and the UCAS website advises them that ‘undergraduate higher education is a world of fascinating subjects that can help you reach new careers *and higher earnings*’,<sup>9</sup> outcomes are in practice extremely varied. The IFS study commented: ‘What is perhaps most interesting is the sheer quantity of variation in graduates’ earnings within an institution.’<sup>10</sup> There is also significant variation between institutions so that, for a given individual, there is, in practice, no certainty that a degree will result in earnings greater than would be achieved without a degree, let alone in ‘higher earnings’.

In relation to costs, the first cohort to face the £9,000 tuition fee scheme is now in the workplace and, as the repayments become a reality, is starting to complain. A fundamental problem that the government faces is with its description of the funding mechanism as a loan when in fact, as David Willetts, author of the £9,000 tuition fee, has stated, it should be characterised as a ‘capped graduate tax’. The expression ‘loan’ was used, Willetts explains,<sup>11</sup> because it was familiar terminology. That is a problematic argument where the promotion of a financial arrangement is concerned and accurate descriptions of a product are required to avoid misleading the customer.

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8 The ‘graduate premium’ is the additional earnings of graduates by comparison with equivalent non-graduates.

9 See the UCAS web page at <https://www.ucas.com/ucas/undergraduate/getting-started/undergraduate-experience>.

10 Op. cit., p. 35.

11 D. Willetts, ‘Issues and ideas on higher education: Who benefits? Who pays?’, London, The Policy Institute at King’s College London, June 2015. Available at <http://www.kcl.ac.uk/sspp/policy-institute/publications/Issuesandideas-higher-education-funding.pdf> (accessed 16th June 2016).

There are two key elements of the tuition fee scheme that demonstrate that the ‘loans’ are instead a tax: 1) the government has reserved the right to vary the terms at any time; and 2) the interest rates charged are arbitrary, leading to them being misleading and unfair. In particular, the charging of a higher rate of interest to higher earners, who are the better credits, may be consistent with progressive tax policy, but it is contrary to the logic of lending. Both aspects are now being challenged.

An engineering student at Durham University, Alex True, recently started an online petition objecting to the government’s decision to freeze the £21,000 repayment threshold, above which 9 per cent of earnings must be paid (thus eroding its real level). True complained that it was not fair to make a retrospective change to an agreement the student had entered into three years earlier. His perception of the scheme as an ‘agreement’ is consistent with the terminology of a loan, in which the borrower’s obligations are clearly set out and cannot be changed by the lender.

The government, however, wants to change the threshold to reduce likely future write-offs, currently estimated to cost the taxpayer up to 45 per cent of the value of the monies advanced to HEIs.<sup>12</sup> As the ‘agreement’ is not a loan they gave themselves the power to do that. It may not be so easy. At the time of writing, True’s petition had reached more than 120,000 signatures in just a few days, above the level that can lead to a debate in parliament about the issue.

Another student, Simon Crowther, posted on Facebook a letter he had sent to his local MP, alongside a statement he received from the Student Loans Company showing a large rise in his

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<sup>12</sup> House of Commons, *Student Loans: Third Report of Session 2014-15*, HC 558, 22nd July 2014 (London: The Stationery Office Limited, 2014). Available at <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmbis/558/558.pdf> (accessed 16th June 2016).

debt *while he was at University*. As the state charges interest at 3.9 per cent up until the April after students graduate, they are seeing their debts rise by as much as £180 a month even while they are not earning. Crowther spoke of his inexperience when he signed up for the tuition fee scheme and that he felt he had been misled. He had not expected the debt to increase so much before he started work. His letter immediately went viral on social media.<sup>13</sup>

It will not be long before some of the 2012 cohort are earning £41,000 and seeing that their ability to repay the 'loan' is being severely hampered by the imposition of a 3 per cent spread over RPI, while peers who earn less are charged a lower rate, and those who earn more pay the same. If they are engaged in the financial sector they will know that the 3 per cent bears no relation to fair market rates, is arguably an unfair term of the contract, and may be open to challenge. As they will also be facing a marginal rate of income tax 9 per cent higher than their non-graduate peers, it is probable that their expressed views about the true financial costs of the tuition fee scheme will discourage prospective students.

Businesses also feel that the state-regulated higher education sector is underperforming private providers where they can be compared. The CBI/Pearson education and skills survey 2015 reports that, in relation to training programmes, 'Private sector training providers outperform FE colleges and universities on every satisfaction measure.'<sup>14</sup>

As the data used in the IFS Study becomes more widely available, prospective students will learn of the highly

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13 H. Osborne, 'Graduate whose loan grew by £1,800 in one year says students were misled', *The Guardian*, 25th May 2016. Available at <http://www.theguardian.com/education/2016/may/25/simon-crowther-loan-grew-by-1800-a-year-says-government-misled-students> (accessed 16th June 2016).

14 CBI, 'Inspiring Growth: CBI/Pearson education and skills survey 2015'. Available at <http://news.cbi.org.uk/business-issues/education-and-skills/gateway-to-growth-cbi-pearson-education-and-skills-survey-2015/> (accessed 16th June 2016).

uncertain value of a traditional university education. They will at the same time be hearing more from the post-2012 cohorts about the hardship caused by the 9 per cent marginal rate of tax. Internet savvy, they will experiment with MOOCs and will be solicited by private providers of training who can point to their stronger reputation with business. Unless traditional universities can put forward a competitive proposition they face the likelihood that prospective students, having considered the risk: return trade-off, will desert them in large numbers.

### The 'Teaching Excellence Framework'

The government appears to recognise that many students are not getting value from their investment in a university education. Its response, a White Paper entitled, 'Success as a Knowledge Economy',<sup>15</sup> seeks to tie the sector up in even more red tape rather than set it free to apply the academic process of experimentation and learning to the complex problem of how to deliver employability in a rapidly changing workplace.

It is beyond the scope of this essay to critique each of the measures the government proposes to use to assess 'Teaching Excellence', but one example stands out as illustrative of how trying to turn arbitrary notions of quality into targets has damaging effects. The government proposes to count the hours of 'contact time' that a student has with teaching staff as an indication of quality.

First, this is a measure of quantity not quality. It is like measuring the productivity of a business by counting the number of workers rather than the output per worker. With

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15 Department of Business Innovation and Skills (BIS), 'Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice', Cm 9258 (May 2016). Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/523396/bis-16-265-success-as-a-knowledge-economy.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523396/bis-16-265-success-as-a-knowledge-economy.pdf) (accessed 15th June 2016).

online learning improving and becoming steadily more accessible, in relation to both the opportunity of enhancing students' creative intelligence, and in terms of efficiency, the smart thing for an HEI to do would be to automate much of its tuition and reduce contact time, but employ more highly paid, and effective, lecturers to deliver it. Counting contact hours will instead encourage them to employ an army of low skilled and relatively low paid teaching staff. Contact hours will go up, but educational quality will go down.

The proposed regulation of teaching embedded in the 'Teaching Excellence Framework' is but the final nail in the coffin of HEIs' freedom of operation, where pricing, course design and customer selection are already subject to heavy interference. The capping of tuition fees at £9,000 per annum effectively marked the introduction of price controls. Course design is subject to approval by the Quality Assurance Agency for Higher Education (QAA). The Office for Fair Access (OFFA) oversees student recruitment policy.

When Ed Miliband said that he would control energy prices he was ridiculed and, in due course, the oil price tumbled, proving the error in his logic. The White Paper's continuation of price fixing will similarly be undone by market forces. The £9,000 tuition fee is already draining away a growing proportion of internationally minded students who are choosing to study abroad and is deterring 'working class' white males. Technological change in the form of ever-improving online courses is the shale oil of higher education and will gradually erode demand for what, for many, is an over-priced luxury.

Perhaps the oddest suggestion in the White Paper is that the sector's deficiencies are due to a lack of competition. With over 150 institutions offering degree-level courses, all promoting themselves enthusiastically, there are no grounds for believing that a few more providers will somehow create

competition and desirable behaviour change. A more astute observation would be that it is impossible to compete when the state has all but eliminated the scope for experimentation and differentiation through its restrictive regulatory approach to all aspects of HEIs' activities.

In the same way, the White Paper's assumption that better 'information' about quality is the key to improvement is misplaced. It always sounds good to have 'more information' but, as Hayek explained, in complex systems the information that would be relevant can't be accessed and those measures that are available may be misleading, and can have potentially damaging unintended consequences. For example, it is proposed to use past graduate earnings outcomes both to 'inform' prospective students and to determine allowed fee levels. Apart from the fact that the very historic nature of this data will be misleading – as in finance – the past is not necessarily a guide to the future – it could be especially damaging to HEIs in the North. These may very well suffer a drop in applications from students misled into thinking the institutions are doing a poor job, when in fact earnings are lower simply because their alumni live predominantly in the North where the cost of living and incomes are generally below the more expensive South. Given the North's cost advantage it would be better to expand provision there, whereas the effect of the White Paper proposals will be to shift demand to the South.

The stifling effect of such regulation is likely to set the state-regulated sector at a considerable disadvantage and make it more vulnerable to disruption from alternative private providers making greater use of technology.

Risk-sharing – the practical alternative

If they are to compete, and to thrive, the traditional campus-based HEIs need to offer a proposition that adds value to

what a prospective student can learn by studying online. Although many of the internet-based courses create online ‘communities’, the experience of meeting face to face with one’s peers and teachers retains a high value for preparing students for the world of work. But an even stronger suit for such institutions would be to offer a (working) life-long advisory and support service tailored to the needs of the individual. This would offer access to new research and ideas, and train the student in the methods of acquiring new knowledge, both of which are most likely to remain beyond the scope of a standardised and computerised system.

The need for lifelong learning, like exercise, is commonly accepted. The existence of many free online courses means the intellectual ‘gym’ is there for anybody to use as they wish. The University can be the personal trainer that adds the essential human element to motivate, guide and support the student through the exercises best suited to their needs.

Professor Alison Wolf, author of the Wolf Review of vocational education, highlighted the importance of incentives in educational provision and the malign effects of regulation, explaining:

In post-19 education, we are producing vanishingly small numbers of higher technician level qualifications, while massively increasing the output of generalist bachelor’s degrees and low-level vocational qualifications. We are doing so because of the financial incentives and administrative structures that governments themselves have created, not because of labour market demand, and the imbalance looks set to worsen yet further.<sup>16</sup>

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16 A. Wolf, ‘Heading for the precipice: can further and higher education funding policies be sustained?’ London: The Policy Institute at King’s College London, June 2015. Available at <https://www.kcl.ac.uk/sspp/policy-institute/publications/Issuesandideas-alison-wolf-digital.pdf> (accessed 16th June 2016).

No amount of expertly designed metrics can make a system work as intended if the incentives are wrong. Under the current regime, HEIs (which need to generate a surplus over the cost of staff and suppliers like any other corporate entity) are encouraged to charge the maximum fee level of £9,000 and to minimise the cost of provision, subject to satisfaction of the myriad targets and constraints placed upon them. There is no incentive to focus any attention on the long-term employability of their graduates, even though this is the desired outcome of the system.

The obvious way to align incentives so that HEIs have a financial motivation for ensuring long-term employability is simply for graduates' earnings-linked repayments on the tuition fee scheme (which continue for up to 30 years) to be made to the institution they attended rather than to the state. The risk to the institution of having its finances subject to the career success of its alumni is reduced by the portfolio effect. HEIs' exposure is spread over many individuals and economic cycles. Over the long term, however, the better the job it does in improving the employability of its charges, the more financially successful it will be. This is risk-sharing in practice – both parties are partners in the success of the student. 'Quality' regulation would no longer be required as the institution's fate rests on delivering a high value-added service.

If a graduate is at some point unemployed, or in a low-level job, assuming the institution feels that career guidance and/or training could transform the situation, it will have a cost/benefit reason for helping. With median full-time earnings at £27,600,<sup>17</sup> for each month an institution can shrink the

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17 Office for National Statistics (ONS), 'Annual Survey of Hours and Earnings: 2015 Provisional Results', Statistical bulletin released 18th November 2015. Available at <http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2015provisionalresults#main-points> (accessed 16th June 2016).

time out of employment there is a gain of over £2,000 to be shared. If the University's intervention could raise the earnings of the graduate in a low-skill job by just £1,000 per annum for a decade there will be gain of £10,000 to be divided. The University becomes a provider of 'educational insurance' stepping in to update skills when needed. This is something the passive, impersonal, offering of MOOCs cannot compete with.

If risk-sharing along these lines was introduced over-night, many institutions would immediately become financially unviable due to the weak earnings of their students as set out above. It would be wrong for them to have to face this consequence as their graduates' weak earnings (relative to their level of education) have arisen chiefly as a result of government regulation, as Professor Wolf explained. Consequently, there would need to be a long transition period during which the government would guarantee the minimum fees collected at a percentage of the notional amount charged (currently typically £9,000 p.a.), with the percentage floor declining over time. This long adjustment period, plus developments in technology making physical assets such as historic buildings ever less of an advantage, would make it possible for some less well-known institutions to make their way into the ranks of the best regarded universities.

Eventually, HEIs will adjust to the new incentive structure and, free to determine their own destinies, some will focus on high cost courses associated with high returns, some will opt for low cost/low return, while others will offer a mix. Universities could choose to remain primarily targeted at 18–19-year-olds, or they may discover that those who already have some experience of work can make especially good students. All should pay more attention to post-graduation outcomes. Careers and alumni offices would be expected to grow in

importance as the financial success of the institution thereafter would depend on students' career progression.

It is impossible to know what would be the best strategy in terms of course offering for any given institution. It would not make sense for them simply to focus on subjects associated with historically high-paying careers because, as set out above, even these are at risk of displacement by computer. Also, it is not the case that all students want to be lawyers, doctors or bankers, and if courses to attract the others are not on offer that HEI would lose market share.

Further, businesses 'look first and foremost for graduates with the right attitudes and aptitudes to enable them to be effective in the workplace – nearly nine in ten employers (89%) value these above factors such as degree subject'.<sup>18</sup> As Lee Harvey commented: 'Many research studies have revealed a consistent core set of desirable skills, often independent of the degree subject. These consist of interactive attributes – communication skills, interpersonal skills, and team-working – and personal attributes, including intellect and problem-solving, analytic, critical and reflective ability, willingness to learn and continue learning, flexibility and adaptability, risk-taking, and self-skills – in short, attributes that help organisations deal with change.'<sup>19</sup> The appropriate response is therefore not to change the range of subjects on offer but to modify course design to ensure that these desirable work skills are developed in the study of the chosen topic.

To take account of the fact that some students are disadvantaged, the government could offer a 'student

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<sup>18</sup> Op. cit., p. 8.

<sup>19</sup> L. Harvey, 'Enhancing employability, recognising diversity: making links between higher education and the world of work', Universities UK (2002). Available at <http://www.qualityresearchinternational.com/esectools/relatedpubs/enhancingemployabilityrecdiversity.pdf> (accessed 16th June 2016).

premium’ along the lines of the ‘pupil premium’ to make it attractive for HEIs to reach out and offer places to those who otherwise might be side-lined. This is a far more efficient way to achieve the equal access objective than the current bureaucratic controls – and access statements would become a thing of the past.

## Conclusion

Stanford was instrumental in getting MOOCs off the ground because it recognised much basic content delivery, work assignment, and assessment could be commoditised and that that was not where its comparative advantage lay. What is developing in the US now is a blended model, where online content is supported with human interaction-based learning. A test by San Jose State and edX found that incorporating content from an online course into a campus-based course increased pass rates to 91% from as low as 55% without the online component.<sup>20</sup>

Such results threaten disruptive change in higher education. If the UK is to remain competitive in this sector its HEIs need to be relieved of the burden of much present regulation and offered incentives that align their interests with those of their students, so that they can experiment and adapt. Risk-sharing would enable this. It would also make UK academics among the most valued members of society since their application of creative intelligence would be the difference between success or failure in the age of the machine.

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<sup>20</sup> See the Wikipedia entry at [https://en.wikipedia.org/wiki/Massive\\_open\\_online\\_course](https://en.wikipedia.org/wiki/Massive_open_online_course).

## 7. The paradox of over-education in a world fuelled by knowledge

– **Nima Sanandaji**

We live in a global society increasingly fuelled by knowledge. Those with limited education face a high risk of unemployment, while employers are intensely competing to attract well-educated talents. As the government's White Paper, 'Success as a Knowledge Economy' explains, higher education is 'a sound financial and personal investment with a wide range of societal benefits'.<sup>1</sup> In this context, it might seem something of a paradox to talk about over-education. Yet this phenomenon is indeed a real challenge. Many individuals study until their late 20s, and sometimes early 30s, and realise only after graduation that the skills they have acquired are not in demand.

In order to adapt to the modern knowledge society, we should not necessarily focus on how much education individuals attain before entering the labour market. What matters is the quality of education, and a focus on life-long learning. In times of rapid technological change and globalisation, individuals face the challenge of having to continuously improve their knowledge. This means that we cannot view knowledge as something that individuals gain at a young age and then use over the scope of a life-time, but rather as a valuable asset that needs to be maintained and built upon.

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1 Department of Business Innovation and Skills (BIS), 'Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice', Cm 9258 (May 2016). Available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/523396/bis-16-265-success-as-a-knowledge-economy.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523396/bis-16-265-success-as-a-knowledge-economy.pdf) (accessed 15th June 2016).

In a speech on the future of productivity in the summer of 2015, Ángel Gurría, secretary-general of the Organisation for Economic Co-operation and Development (OECD), reiterated a message that has been central to the organisation's mission for many years. 'It is [...] essential,' she said,

to invest in education and life-long learning to ensure that workers have the capacity to learn new skills, to make the most of digitisation, and to adapt to changing technologies and working conditions. As we always say at the OECD: skills, skills, skills. This is key in the knowledge-based economy in which we live.<sup>2</sup>

Already in the mid-1990s, the OECD noted that high-technology manufacturing and knowledge-intensive service sectors were becoming progressively more important in modern economies. Increased investment in education and training was thus identified as the key for thriving societies.<sup>3</sup> Today, human capital is arguably an even more important driver of development.

Throughout world history, the countries and regions with the most developed education systems have been the most prosperous and the most innovative. What is new about the age in which we live is that job opportunities for those with little or no education have been shrinking rapidly. Over time, an increasing proportion of the workforce has moved into complex jobs for which formal education and learning are required. There are already few simple jobs left, and they might become even scarcer in the years to come.

Now we are seeing a new trend, one in which rapid robotisation and the rise of intelligent computer systems are

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2 OECD, 'Keynote speech on the future of productivity: Productivity by all and for all'. Address by Ángel Gurría, Secretary-General, OECD Mexico City, Mexico, 6th July 2015. Available at <http://www.oecd.org/economy/keynote-productivity-by-all-and-for-all.htm> (accessed 16th July 2016).

3 OECD, 'The Knowledge-Based Economy', OCDE/GD(96)102 (1996). Available at <https://www.oecd.org/sti/sci-tech/1913021.pdf> (accessed 16th June 2016).

making obsolete many simple jobs – but also many middle-level or even highly qualified jobs.<sup>4</sup> As an illustrative example, bank advising has for long been viewed as a highly qualified job, not possible to replace by computers. However, today's modern computer systems can automate even these tasks. In March of 2016, the Bank of Scotland announced plans to replace up to 220 staff with 'robo-advisors'.<sup>5</sup> Another example is Watson, the IBM supercomputer program, which became famous in 2010 when it defeated the human champions of the American TV-series *Jeopardy!*. Watson is built upon a technology platform that uses natural language processing and machine learning to reveal insights from large amounts of unstructured data. During the last few years, it has been adapted to automate processes in various complex professions, such as diagnosing patients. Although doctors seeking advice from a supercomputer might seem like something from science-fiction, it is already a reality – indeed, Watson has managed to improve medical outcomes.<sup>6</sup>

What happens when even complex tasks can be automated? Well, the challenge becomes to find jobs for humans that are truly difficult to automate. People have to develop and increase their knowledge sets, focus more on personal services, and learn more about the new technologies that are rapidly changing the landscape of work. Certainly, in such a setting, knowledge is highly valued. A number of researchers have noted that human capital, which exists in the form of workers' knowledge and abilities, is increasingly becoming

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- 4 C. B. Frey and M. A. Osborne, 'The future of employment: how susceptible are jobs to computerisation?', 17th September 2013. Available at [http://www.oxfordmartin.ox.ac.uk/downloads/academic/The\\_Future\\_of\\_Employment.pdf](http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf) (accessed 16th June 2016).
  - 5 G. Hiscott, 'Up to 220 staff could be replaced with "robo advisors" at Royal Bank of Scotland', *The Daily Mirror*, 14th March 2016. Available at <http://www.mirror.co.uk/news/business/up-220-staff-could-replaced-7556013> (accessed 16th June 2016).
  - 6 S. Smith, '5 ways the IBM Watson is changing health care, from diagnosing disease to treating it', *Medical Daily*, 17th December 2015. Available at <http://www.medicaldaily.com/5-ways-ibm-watson-changing-health-care-diagnosing-disease-treating-it-364394> (accessed 16th June 2016).

important for the world economy. The companies that gain a leading position in the global marketplace are often characterised by the ability to attract and retain the most highly qualified staff. This largely explains why companies are attracted to knowledge clusters, such as Silicon Valley in the US or Cambridge in the UK. It also explains why firms such as Google, Facebook, Skype, and Spotify have such a strong focus on talent recruitment.<sup>7</sup> In April of 2016, for example, the founders of tech firm Spotify threatened to leave Sweden. The main reason they cited was the difficulty of attracting international talent to Stockholm, due to a congested housing market and high taxes on work and employee stock options.<sup>8</sup> For long, Stockholm's growth has been largely due to the success of knowledge-intensive industries, but the city is now facing difficulties due to a shortage of talent.

In this context, it makes sense for governments to step up investment in knowledge. However, it is important to understand that modern economies are already today facing the challenge of over-education. That is, many of their citizens are over-qualified for the jobs they do.

The concept of over-education has been discussed by scholars for some time. It is well known that there can be such a thing as too much investment in knowledge.<sup>9</sup> In recent years, the literature on over-education has expanded rapidly.

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- 7 See, for example, B. E. Becker, M. A. Huselid and R. W. Beatty, *The Differentiated Workforce: Transforming Talent into Strategic Impact* (Harvard Business Press, 2009);
  - 8 M. Verbergt, 'Spotify founders threaten to leave Sweden', *Market Watch*, 12th April 2016. Available at <http://www.marketwatch.com/story/spotify-founders-threaten-to-leave-sweden-2016-04-12> (accessed 16th June 2016).
  - 9 See, for example, M. C. Tsang and H. M. Levin 'The economics of over-education', *Economics of Education Review*, 4:2 (1985), pp. 93–104; S. McGuinness, A. Bergin, and A. Whelan, 'A comparative time series analysis of over-education in Europe: is there a common policy approach?', *Strategic Transitions for Youth Labour in Europe* (2015), available at [http://www.style-research.eu/wordpress/wp-content/uploads/ftp/STYLE-Working-Paper-WP5\\_1.pdf](http://www.style-research.eu/wordpress/wp-content/uploads/ftp/STYLE-Working-Paper-WP5_1.pdf) (accessed 16th June 2016); and E. Leuven and H. Oosterbeek, 'Overeducation and Mismatch in the Labor Market', IZA DP No. 5523 (2011), available at <http://ftp.iza.org/dp5523.pdf> (accessed 16th May 2016).

Yet international comparisons have been rare, since it is difficult to quantify the rate of over-education. In a recent paper Seamus McGuinness, Adele Bergin, and Adele Whelan estimated the rate of over-education in European countries. They did so by looking at the share of employees whose ISCED level of schooling<sup>10</sup> is one level or more above their occupational mode. As shown in the table over, the authors find that a significant proportion of the workforce is over-educated in most European countries, although the rate does vary. In the Slovak Republic, Slovenia, and the Czech Republic, for example, less than one tenth of workers are over-educated. In the UK, on the other hand, one out of five workers is over-educated, while the figure in Ireland is one out of three workers. The rate of over-education is increasing for just over half of European countries, decreasing in a few, and is relatively stable in others (the UK and Ireland belong to the latter group).<sup>11</sup>

Why, then, does over-education arise? A number of different reasons can explain the phenomenon – which have different policy implications.

Knowledge-intensive businesses grow more slowly than the educated workforce

In some countries or regions, the growth of knowledge-intensive businesses lags behind for various reasons. Students might take the sensible decision to study for a higher degree in, for example, biotechnology, but have difficulties finding work since the pharmaceutical and biotech firms in their country are struggling. In dynamic

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10 The International Standard Classification of Education (ISCED) is a statistical framework for organizing information on education maintained by the United Nations Educational, Scientific and Cultural Organization (UNESCO). It is possible to match jobs that individuals have with the typical requirement for such jobs according to ISCED categorization of education.

11 McGuinness et al., 'Comparative time series analysis', op cit.

Share of over-educated in workforce, 2001-2011 estimates	
Ireland	33
Cyprus	31
Spain	30
Greece	28
Belgium	26
Lithuania	25
Estonia	24
Italy	24
Netherlands	22
UK	21
Austria	19
Latvia	19
Germany	18
Denmark	18
Portugal	18
France	17
Luxembourg	17
Finland	14
Sweden	14
Hungary	13
Bulgaria	11
Poland	11
Romania	10
Slovenia	9
Czech Republic	8
Slovak Republik	8
Source: McGuinness et al., 'Comparative time series analysis', op cit.	

economies, new firms will evolve to hire the skilled workforce. However, this might not happen in countries whose development has stagnated. It is no coincidence that countries such as Greece and Cyprus, which have experienced sluggish development, have high rates of over-education. If this is the case, the problem is not necessarily overinvestment in education, but rather flaws in the business climate which slow down the transition towards higher knowledge intensity.

### Qualified immigrants are not well integrated

Many Northern European countries in particular have restrictive labour-market practices, high taxes, and generous public benefits. These structures reduce the opportunities and incentives for immigrants to enter the labour market. In such circumstances, even well-educated immigrants often remain outside the labour market, or only find jobs below their skill level. Again, in this instance, the issue is not overinvestment in education, but other societal challenges. This issue is less relevant in the UK context, since the country has a more flexible and thus better-functioning labour market.

### Other forms of mismatch

If qualified immigrants do not find appropriate work, it is indicative of a form of mismatch in which demand and supply on the labour market do not meet. There are also other forms of mismatch. Poor matching services offered by employment agencies; geographical distance between employer and job seekers; and difficulties finding housing in cities with high skills demand can all lead to a situation where a worker with a certain skill set does not find work, while an employer who is looking for the same skill set does not find a qualified worker. Mismatch might lead to highly educated individuals working below their qualification level, or not

at all. However, this is not really a sign of over-investment in education (although it can easily be mistaken for this). Rather, it is a sign that the gains of education are not utilised properly. Mismatch should be met through reforms that improve the functionality of the labour market.

Students have incentives to study 'fun' subjects, rather than subjects the labour market demands

Higher education is heavily subsidised, or even fully paid, by governments in Europe (and elsewhere). Students pay relatively little for an expensive service, while also often receiving maintenance bursaries and subsidised loans. However, at the same time, some fields – such as engineering, natural sciences, mathematics, law, and medicine are seen by many students as more difficult than fun. Fields such as arts and the social sciences are more attractive and generally involve less effort. Students seem to favour these 'soft' fields disproportionately to their labour market value. Since students do not pay the full cost of their education, and since much of the wage premium generated is spent on taxes, they might be inclined to choose softer but less financially rewarding fields – compared with a situation in which students pay the full cost and reap all the benefit of higher education.

For example, many young adults choose to study journalism, not necessarily because it is an easy field, but since it is seen as a rewarding job. However, the demand for journalism tends to be much more limited than the number of students entering the field. Thus, in terms of subject and course choice, a change in policy is certainly desirable. Is it prudent that European governments spend vast sums of money on courses that leave graduates unemployed or forced to seek occupation outside their field of study, simply because demand is much lower than supply? A better match between

supply and demand could either be achieved via government regulation and targeted subsidies to certain subjects and courses, and/or through (limited) student fees. In addition, the proposed 'Teaching Excellence Framework', according to which the government will monitor and assess the quality of teaching in England's universities, could potentially be used to raise the standards of soft subjects.

Education is not just about increasing knowledge; it's also a race to signal intelligence, work capacity, and status

One reason why we choose to educate ourselves is to gain knowledge and to train our brains in analytical thinking. However, there is another important reason: signalling. Many employers do not necessarily hire workers because they possess knowledge they have attained through education, but rather because an education at a top university signals that the individual is intelligent, hardworking, and capable of learning. Therefore, a race for education has begun, partly driven by this 'signalling effect'. Previously, for example, many skilled young adults pursued relatively short engineering degrees and later learned new skills on the job. This explains why many older and senior engineers have limited formal education. However, increasingly, to signal intelligence and work ethic, individuals pursue longer engineering degrees, take Masters degrees, or even get a PhD. This is not to say that the pursuit of knowledge is unimportant to these individuals, but it is also about signalling to future employers and the rest of society that 'I am better than the other students'. The problem is inflated by the fact that education does not only give individuals greater job-market prospects, but also higher societal status.

Thus, employers start hiring those who have over-invested in education compared to the jobs they seek. Chevalier touches on this in his study on over-education in the UK:

Employers faced by a more qualified pool of candidates may have upgraded some traditionally non-graduate jobs. Alternatively they may recruit graduates for jobs that have basically stayed the same and do not require graduate skills, or as educational standards are commonly suspected to decrease over-time, upgrade their qualification requirements to select candidates with the appropriate skills. Moreover, the increased participation in tertiary education has depleted the pool of well-qualified 16 year-old school leavers, thus employers may consider low ability graduates as an adequate substitute.<sup>12</sup>

Is the sensible solution to scale back public funding of education? In an article published by the *Daily Mail* in the end of 2013, Becky Barrow wrote about the sharp rise in individuals with a higher degree in the UK, and how it creates a situation in which many jobs that formerly did not require such degrees, now do. In the article, written during a recession, Trade Union Congress general secretary Frances O'Grady was cited as saying: 'Having got themselves tens of thousands of pounds worth of debt, nearly half of all recent graduates are doing lower-skilled jobs. This in turn pushing young people who don't have a degree out of work altogether.'<sup>13</sup> More recently, in 2016, Fraser Nelson wrote, in an opinion piece in *The Daily Telegraph*:

The clearest glimpse into all this came a few days ago when the Institute for Fiscal Studies released a giant study about graduate earnings. It found, as you'd expect, that a degree from the big-name universities is worth every penny borrowed to fund it. But the others? It depends on

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12 A. Chevalier, 'Graduate Over-Education in the UK', Centre for the Economics of Education, London School of Economic and Political Science (2000). Available at <http://cee.lse.ac.uk/ceedps/ceedp07.pdf> (accessed 16th June 2016).

13 B. Barrow, 'What is the point of going to university? Recession means half of graduates are working in jobs which do not need a degree', 19th November 2013, *Daily Mail*. Available at <http://www.dailymail.co.uk/news/article-2509883/Half-graduates-working-jobs-need-degree.html> (accessed 16th June 2016).

the courses. Most arts degrees are pretty worthless. While studying hard does seem to pay off, with a 2:1 leading to higher pay than a 2:2, remarkably, the researchers found no fewer than 23 universities whose average male graduate earns less than those who had not been to university at all. Had any of these students borrowed heavily to attend, it would be a calamitous investment.<sup>14</sup>

I would argue that the issue is not that we are over-investing in knowledge – after all, knowledge is fueling the modern economy – but rather that we are investing too much in knowledge before individuals have entered the labour market – and too little after they have started working.

It's clear that many people in modern economies are not employed in the professions for which they have been educated. This holds true even for professionals who have studied degrees in high demand. For example, many with high-quality engineering degrees end up as corporate leaders, sometimes in fields not related to their studies. Others use some of the knowledge they have acquired through higher education, but gradually move to different fields. Are these individuals not knowledge workers? Of course they are. However, their knowledge does not come from formal education alone, but also from continuous learning after after they have entered the labour market.

An important exception to the over-education phenomenon concerns medicine. If you want to practice medicine, you have to get a medical degree. And most people who study medicine also end up working in the field. Medical studies also have a clever design, wherein much learning occurs in hospitals – that is, in the place of work. It is therefore

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<sup>14</sup> F. Nelson, 'Too many universities teach pointless degrees that offer nothing to their students or society', 15th April 2016. Available at <http://www.telegraph.co.uk/education/2016/04/14/too-many-universities-teach-pointless-degrees-that-offer-nothing/> (accessed 16th June 2016).

interesting to note that the field of medicine has long acknowledged that nobody, however well educated, has the skill-sets and knowledge needed for an entire professional career following the completion of a degree. Rather, individuals continuously have to upgrade their knowledge to keep up. This is why doctors, nurses, and other medical professionals are continually engaged in courses and seminars: to increase and refresh their knowledge base.

We should not forget how little we can remember. It is no coincidence that the TV show *Are You Actually Smarter than a Fifth-Grader* has become popular in many countries. It is indeed funny to watch highly educated adults who know less than 11-year-olds. And of course, worldwide, many adults do know less about what 11-year-olds are taught, compared with the 11-year-olds themselves. This makes perfect sense. Adults have simply forgotten much of what they learned as 11-year-olds. This is how our minds work.

One of the mistakes in education policy design is to ignore the fact that we simply do not remember everything we are taught. Even in good education systems, adults will not remember everything they learned as 11-year-olds, or as university students. However, they will gain some knowledge, and train their brains for future learning, while also improving their work ethic – precisely the combination of skills individuals need to prosper in modern society. We remember the information that we use. This is why it makes sense to have elements of workplace-learning in many professions – and why it sometimes is more useful to pursue a relatively short university degree, enter the labour market, and then go back to university and continue to learn.

Policymakers sometimes appear to believe that the proper way of preparing people for the knowledge society is to pour money into formal schooling prior to entry to the labour

market. But think about the challenges posed by the modern knowledge economy: radical, and rapid, technological change continually changes the realities and nature of the job market. Doctors have to get used to Watson, just as bank staff have to get used to robo-advisors, and transport workers to self-driving vehicles. Jobs now change rapidly as new technologies are introduced. These changes often come suddenly and are difficult to predict. Technology and globalisation combine to make most jobs increasingly specialised.

So what is the role of higher education in this new society? For all their advantages, university degrees tend to focus on basic knowledge in specific fields, not the latest and most specialised. This is fine, as long as individuals can enter the labour market relatively early, discover and focus on the tasks in which they want to specialise, and then can continue to do so throughout their further education.

The government's White Paper, 'Success as a Knowledge Economy', advocates that competition in the provision of higher education should be made easier by reducing the 'significant and disproportionate challenges' facing new and innovative providers of high-quality education.<sup>15</sup> But the government should not stop there. Competition should be encouraged in the provision of adult education too – by reducing regulatory barriers and promoting public and private funding. Knowledge, much like a carton of milk, has an expiry date. In the new knowledge economy, this expiry date has been reduced considerably. Greater focus on continuing adult education – indeed lifelong learning – is required. On such a model, the challenge of over-education can be overcome, because individuals would then have many opportunities to align their knowledge with the actual demands of the society in which they live.

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15 Op. cit., p. 9.



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