Modelling the English higher education market: policy, perception and reality. (0028)

Colin McCaig, Nic Lightfoot
Sheffield Hallam University, UK

This paper sets out to subject recent government reforms designed to introduce market incentives into English higher education to rigorous economic analysis. This reveals that far from producing the conditions for a truly free market, these reforms have to be seen within the restricted understanding of an already highly differentiated system. The creation of a new regime consisting of: measures of teaching quality; better information to enhance choice; incentives to alter the types of provision offered; the replacement of regulatory architecture with lower barriers to entry (and fewer barriers to 'exit' for 'failing institutions') can all be read as serving a series of narrow financial and political ends. The paper identifies the key aim of recent policy - to create differentiated tuition fees within the market to match the UCAS tariff differential that currently serves as the main active/signalling part of what is a dual price mechanism in English HE.

Outline

The question this paper sets out to answer is: how have the “market mechanisms” introduced by recent Governments impacted English higher education? As such this paper seeks to discuss the implications of these moves, perceived and actual, with regard to the development of the stated aim of developing a price differential between higher education institutions. In order to do this, we proceed by a) outlining an economic model of the market in HE; b) testing the logic of each of three market-enhancing policy initiatives against our model; c) analysing the early effects of the removal of the student numbers cap in 2015-16.

English HE is characterised by the existence of a ‘dual pricing’ system consisting Ucas tariff points and tuition fees. While tuition-fee variation is currently constrained (not least by an excess of demand over supply), Ucas tariff points act as a sophisticated pricing mechanism by which applicants can determine the 'best' or at least most highly desired courses; and as consumption at the highest prices is restricted to those with the most money, so access to the highest demanded courses is restricted to those that have the highest entry grades. For some institutions the maintenance of high Ucas tariff points is deemed more important than responding to demand and supply; for example the recruitment of more students is not necessarily seen as beneficial if the consequence is a reduction in Ucas points. It is also clear that when prices are generally set at an institutional (rather than course) level, many of those with the highest entry grades do not demand places at the most prestigious institutions, preferring to access high grade courses at institutions that on average could not justify the highest fees across the board. This mis-match between the two parts of the 'dual-pricing' system is believed to act as a brake on the efficient working of the market.

Background - free markets in theory and practice

Neoliberalism feeds a belief in the ability of markets to distribute goods and services in the most effective manner (Brown and Carrasso 2014, Molesworth et al 2011). Given this perception

there have been multiple attempts to move towards the development of competitive markets or a model of perfect competition.

This occurs when: 1. units of the product or service are homogenous – ensuring that the consumer is sensitive to price; 2. there are many buyers and many sellers sufficient that individual influence is minimal; 3. buyers and sellers have perfect knowledge of the market; 4. there is perfect mobility of buyers between sellers and sellers into and out of the market. Given this model the market determines the price at which university education is provided, the suppliers are price takers, the consumer is sovereign.

As others have noted (Brown and Carrasso 2014, McGettigan 2012) the English HE system doesn't meet the conditions under which a market could work perfectly - however governments, in England as elsewhere (Meek, 2000), have determined to make market-like interventions to inject a degree of competition. Our analytical frame is employed to test three recent policy measures in relation to their potential for creating market competition:

- 2004 HE Act which saw the introduction of variable tuition fees (at three times the previous level), income contingent repayment of those fees and a market in financial support packages (bursaries and scholarships)
- 2011 White Paper *Students at the Heart of the System* which introduced a new variable fee maximum (£9,000), an enhanced (and more progressive) income contingent repayment scheme, more emphasis on Key Information Sets to enable informed choice, and two specific mechanisms within the overall numbers cap: a High Grades policy to incentivise institutions to replace applicants with lower grades with those that have higher entry grades; and a 'quality and value' margin of additional places capped at a lower tuition fee (£7,500 or below) designed to inject competitive pressure from other providers and encourage HEIs to lower their fees for at least some of their provision.
- 2016 White Paper *Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice* which introduced a Teaching Excellence Framework designed to reward institutions that could better demonstrate teaching excellence with the ability charge more than those less successful. This White Paper also introduced measures to make it easier for new providers to gain Degree Awarding Powers (DAP), university title rights (UT) and market entry with lower student numbers, lower proportions of HE students (of total students), and, crucially, made it easier for existing HEIs to fail.

Methodology and methods

The paper uses economic modelling to test or challenge policy by analysing a set of 'market failures' that recent policies have either created, exacerbated or been designed to ameliorate:

- the market does not set the price in this version of the market - equilibrium (achieved by a balance of supply and demand) cannot be achieved when there is a fee cap. An excess of demand over supply suggests tuition fees are set below equilibrium
- the market has not (until recently) set the number of funded places, so equilibrium is further compromised. An excess of demand over supply suggests more places should be created or tuition fees should rise to reduce demand.
- the market for degrees is not homogenous; not all degrees are the same (even within the same subject disciplines) as measured by demand (i.e. applicants per place at the required entry qualification level); there is differentiation by institution (IFS 2016, HEFCE 2011).

The paper then concludes by re-examining the government's aims: to encourage a differentiated fee which enables the distribution of best qualified students to the most prestigious institutions; to do this while avoiding raising the tuition fee cap (beyond inflation); to lower the average tuition fee level across the sector to that modelled as sustainable, and thus public spending exposure through the introduction of new HE providers.

The paper concludes by considering the first wave of applicant data since the removal of the numbers cap (2015-16) for evidence of institutions moving towards more free market positioning.

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