Assessing the White Paper on higher education

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Executive summary

The proposed new system creates the same strategic problem – the cap on student numbers – for the same reason as current arrangements – the high cost to the taxpayer of extra students. The White Paper proposes mechanisms to improve quality via competition, but with the number of students fixed, the reforms are more likely to reduce price (and hence public spending on loans) than to improve quality. Thus the strategy is flawed, and the White Paper mechanisms will not (because they cannot) sidestep the problem. As formulated, the reforms do little or nothing to promote quality, widen participation or increase the size of the sector. The only solution is to fix the strategy by improving the design of loans so that the numbers cap can be

The White Paper proposes mechanisms to improve quality via competition, but with the number of students fixed, the effects of competition are more likely to reduce price (and hence public spending on loans) than to improve quality. Thus the strategy is flawed, and no amount of clever tinkering can sidestep the problem. The only solution is to fix the strategy by improving the design of loans so that the numbers cap can be relaxed, giving the market more influence on price and quantity and hence also on quality (for detailed discussion, see Barr and Shephard 2010).

2 The White Paper proposals

4. The requirements announced in the White Paper that universities publish timely, accurate and relevant information are unambiguously good.

5. The effects on competition are shaped by the inescapable implications of having a fixed number of students:

- Admissions are a zero-sum game. If some universities expand others must contract.
- If the number of institutions increases (e.g. because of new private entrants), the average size of each must fall.

6. On competition, the White Paper says (Executive summary, p. 10):

> 'We will free around 85,000 student numbers from current controls in 2012/13 by allowing unrestrained recruitment of the roughly 65,000 high-achieving students, scoring the equivalent of AAB or above at A-Level and creating a flexible margin of 20,000 places to reward universities and colleges who combine good quality with value for money and whose average charge (including waivers) is at or below £7,500.'

7. Thus, the White Paper creates a market with three parts:

(a) 'Top' universities accept mainly AAB students and can expand. Competition within the group is a zero-sum game. For the group as a whole, expansion is by bidding AAB students away from 'middle' universities.

(b) Middle' universities: for the group as a whole, student numbers are reduced by the size of the margin and, because they charge more than £7,500, these universities cannot bid for margin students.

(c) 'Low price' universities have an average net fee of less than £7,500, so the group as a whole can expand by the size of the margin. An institution can combine a fee of £9,000, if it has a top department, with lower fees in other subjects, together with fee waivers calibrated to bring the average to below £7,500 . The group includes three types of institution: new private providers, further education colleges, and access universities.

The Financial Times refers to these groups as the 'new elite', the 'squeezed middle', and the 'insurgents', respectively (http://www.ft.com/cms/s/0/cc088644-a416-11e0-8b4f-00144feabdc0.html).

3 Assessment

8. Successive sections discuss likely effects on quality, access and size. Section 3.4 discusses some additional worries.

3.1 Quality

9. GROUP (A) UNIVERSITIES. The White Paper argument is that, by liberalising numbers, universities in this group can expand, and that the option to do so creates competitive incentives to improve quality. That argument is weak for the best universities for two reasons. First, they are unlikely to want to expand much (it is implausible to imagine significant expansion by Oxford, Cambridge, LSE, or Imperial College; and University College London has already made an announcement to that effect). Second, and more fundamental, any increase in domestic competition facing those institutions is completely dominated by the international competitive pressures they have faced for many years. To imagine otherwise is to argue that those universities teach well enough to attract foreign students, but need domestic competition to encourage them to teach UK students well.

10. If increased domestic competition through liberalised student numbers is to have any effect, it would be on the second tier of group (a) universities.

11. GROUP (B) UNIVERSITIES. The average university in group (b) can avoid a reduction in student numbers only by reducing price enough to join group (c), allowing it to bid for margin. There is no mechanism for the average university in group (b) to increase student numbers by improving quality (i.e. shifting its demand curve to the right); its only lever is to reduce price (i.e. moving down the demand curve). To the extent that there is competition in group (b), it is within a zero-sum game.

12. Thus the quality of universities in group (b) is at risk for two reasons: they lose money because they lose quota; and they risk losing their best (AAB) students to group (a), not least because savvy parents will recognise the unhappy position of universities in group (b).

13. Over time, the risk is that these effects will 'hollow out' group (b) – universities which in many ways are the core of English higher education, but also enormously attractive worldwide. Hollowing out puts at risk the export performance of the sector.

14. GROUP (C) UNIVERSITIES. The ability of a university in group (c) to expand is by bidding for students from the margin on the basis of price and quality, competing for places with new private providers and further education colleges. Places are allocated by HEFCE, not the market. Thus the system is one with a shortage of places and a central-planning approach. Even a rudimentary knowledge of the communist experience suggests scepticism.

3.2 Access and participation

15. FAIR ACCESS. The use of AAB or equivalent as the metric in group (a) militates against the use of contextual data (e.g. the fraction of pupils at an applicant's school achieving 5 good GCSE passes). The effect might not be acute in a handful of top universities, but otherwise risks potential adverse effects on fair access

16. WIDENING PARTICIPATION

21. More generally, HEFCE will be doing a juggling act: rapid change may cause some institutions to fail because the numbers cap denies them an important degree of freedom. If there is significant instability, HEFCE will stabilise the system by keeping changes small. But in that case, competition is limited – the system is complex, but to no useful effect.

4 Conclusion

22. THE CURRENT REFORMS DO LITTLE OR NOTHING FOR QUALITY, ACCESS OR SIZE. They fail on size, since the high cost of loans constrains student numbers. The White Paper does little, if anything, to widen participation, and the AAB metric could harm fair access. The