

Higher Education Funding: Policy, Politics, and Possibilities.

It's early in the morning, so let me be clear. In the short time available to me this morning I want to do three things:

I want to hint at the curious history of higher education policy debate over the last generation, and suggest that it has tended to ignore the underlying development of a new political economy of higher education (a new funding model if you want to be more prosaic).

I will then revisit the recommendations of the Browne Review and offer a commentary on the way in which Browne's carefully-crafted recommendations have been revised, largely in ways that have attenuated market disciplines and made higher fees more rather than less likely.

I will end by suggesting that there are issues that need urgently to be revisited in the forthcoming White Paper.

Lest anyone misunderstand my message, let me say at the outset that I admire the political courage of the Coalition Government in addressing the higher education funding challenge, just as I admired Labour's willingness to develop a new and essentially well-directed system of higher education funding in 2003-4.

What concerns me is that the counterpoint between policy formation and a fairly crude politics risks undermining what might yet be a sustainable approach to higher education for the next decade or more, and that is a prize worth having.

Let me now move to what has made HE policy so deeply political and so deeply contested in the last fifteen years. Underlying HE policy there has been, I think, a profoundly complacent assumption: that the excellence of our system is invulnerable. The achievement of higher education - producing a world class system on about half the front-line funding enjoyed by competitors – has not brought us the acclamation we might have expected, still less immunity from political interference or from an inclination to micro-manage institutions, and indeed a sector, that broadly manages itself rather well.

Precisely because the quality of our system has been taken as a self-sustaining given, and the competitiveness of international higher education has been overlooked, it has been prodigiously difficult to sell the hard choices that are urgently needed to sustain the system and its funding.

One consequence of this is that issues such as participation, access, and economic impact have taken precedence in the political debate over sustaining the *quality* of the system. All the political compromises that have been made, from the rejection of key aspects of Lord Dearing's 1997 report, through the concessions made in 2004 to get the HE Bill through, through the July 2007 changes to student support, to many of the changes made to Browne's recommendations, all have taken resource away from sustaining a high quality system. Some of these compromises might be justifiable as attempts to balance two public goods - access and quality - but there are serious questions as to whether the right balance has been struck.

It is, of course, an analytical commonplace that mass systems of higher education cannot be funded in the ways that elite HE systems were, and that an ineluctable consequence of the move towards mass higher education is that students must pay more.

What is less well understood is that we embarked on this road to a radically different political economy of higher education as early as the 1970s.

Maintenance grants were dramatically eroded in the 1970s as public expenditure pressures combined with the expansion of numbers in Higher Education to make the then systems of student support unsustainable.

When I arrived at university in 1977, from a far from affluent family, I enjoyed what was deliciously called 'a minimum grant'. Grants gave way to loans in the 1980s, and in the 1990s government sought, unavailingly, to find private sector alternatives to all student support.

If the first consequence of a move towards mass higher education was that students contributed much more towards the cost of their maintenance, the next stage was that they would need to meet at least some of the costs of their tuition. That was a core issue for Dearing, and has dominated the public debate on higher education ever since. Had it been better understood that the debate on how to fund tuition was part of a funding trend reaching back to the 1970s, and supported in government by both parties, the debate might have been more informed and more constructive.

As it was, 'free higher education' has become an easy slogan of opposition parties, especially those who thought they could make electoral pledges to reduce the scale of their likely electoral defeat. 'Free higher education', as Nick Barr repeatedly reminds us, is code for 'someone else pays', and, in the case of higher education, those who pay are those who don't benefit directly from higher education.

The advocates of 'free higher education' from 1997 onwards have never produced a costed plan. Hence that curious moment in the summer of 2010 when myriad 'opponents of fees' and former advocates of 'free higher education' came out in support of a graduate tax, a policy that would have seen graduates with unlimited fiscal liabilities and certainly a policy that would have seen them paying more than under the Browne proposals they sought to oppose.

Indeed it has been striking how courageous *governments* have been in promoting new systems of higher education funding. Labour did legislate on Dearing, albeit in a less enlightened way than Dearing had recommended. More strikingly Labour in 2004 and the Coalition in 2010 were unflinching in seeking to promote change in higher education funding at very considerable parliamentary risk.

I have so far sought to locate the 2010 debate on Browne and funding in a much longer history. Only by understanding the curiously contested history of higher education policy over the last generation can we understand the striking politics of 2010. In an important sense, this was a *dénouement* no-one anticipated. Imagine, if you will, the counter-factual.

Browne was commissioned – like Dearing – on a bi-partisan basis, after extensive discussions between the two main parties. The reasons for this were not far to seek. It was universally acknowledged within government that the current student funding regime was unsustainable. That was partly because the costs of the 2006 system were under-estimated, and the costs of the 2007 changes hardly estimated at all.

As the squeeze came on public expenditure, the effect of overspends in student support was a constant erosion of the teaching grant. The effects of the system, if not checked, would have been a massive erosion of teaching funding and quality. And this was apparent even before the consequences of the 2008 global crisis kicked in.

Thus the expectation was that Browne would recommend change, and must seek a sustainable alternative. Almost certainly that new system would be a radical elaboration of the 2006 system rather than a repudiation of it. The imperative for change thus created an imperative that Browne would, at least substantially, be implemented. Hence the bi-partisan nature of its commission.

The interactions between Lord Browne's Review and the changed and changing political environment were complex. John Browne was insistent throughout that his was an independent review. The Review's independence mattered to John, as it did to all of us on the Review Group.

Interestingly the many journalistic attempts to suggest that the Review's independence was somehow a sham have been unavailing. Indeed the more journalistic critics have pressed the more reluctantly impressed they have been by the Review's insistence on gathering evidence, on taking evidence in public, of operating with a very diverse reference group, and on developing solutions rather than reinforcing prior assumptions.

In the light of what was to come, Browne's guiding principles and principal recommendations were interesting. Its recommendations might be briefly summarized:

1. The separation of maintenance and tuition
2. Higher education's remaining free at the point of delivery
3. Proportional graduate contributions
4. Treating part-time students on the same basis as full-time students
5. Creating a market that would be shaped by informed student choice
6. Using student choice as the principal driver of quality
7. Eliminating unmet qualified student demand
8. Freeing up numbers in the system
9. Developing a soft cap on fees and introducing the principle of risk-sharing between institutions and government over funding.

Put like this, the radicalism and long-term vision of Browne is clear, as is the extent to which the Browne proposals were amended or, in some cases, put into abeyance to secure political support. At least as interesting was the rapidity with which the Browne proposals started to be amended.

Thus the Browne Report more-or-less immediately became the subject of an intensely political process. The inevitable consequence was that the checks and balances, central to Browne's vision, became weakened. Take the issue of the cap.

Browne envisaged what I have called a soft cap, in essence a sliding scale where institutions charging above £6,000 would share the risk of non-repayment by, in essence, indemnifying government on the basis of the RAB charge. At first sight this seemed complex - it is amazing how few actually understand even the basic principles of public accounting; on second blush some universities protested this was objectionable –

why should they pay a 'levy', they were entitled to charge what they wanted, with government carrying the whole risk premium: in the event this was a self-defeating naivety or a breathtaking example of pure welfarism; and on third blush this seemed to critics a licence for universities to charge unlimited fees, well into five figures.

Anyone who bothered to reflect carefully on the proposal would have concluded: that the principle of risk sharing over a basic fee was legitimate, would create market responsibility, would ensure that the system was stable and sustainable, and would give both a soft cap to the fee and real scatter in fees charged. Almost certainly the median fee under the Browne proposal would have been lower than those which will emerge under the current twin cap system. I understand the political logic that drove the Coalition to the twin caps. I understand rather less why the Sector rushed to embrace it; but above all we must understand that the logic was a political logic, which was profoundly at odds with the underlying logic of the system that Browne was seeking to promote.

Take next the issue of numbers. Browne – rightly in my view – took pride in finding a funding model that would enable the system to continue to expand, perhaps by as much as a further 10%.

I have long held that, in systems such as ours, when you approach 50% participation you will meet all qualified demand, and the system will be self- equilibrating.

Thus Browne would have envisaged institutions setting fees where there was no unmet demand i.e. no artificial constriction of supply which would enable providers to charge an above market-price fee without significant hazard.

Browne also recognized that, as the Treasury was funding the system, it would not accept an open-ended or unlimited liability. Hence Browne sought a mechanism that would enable the Treasury to cap total HE expenditure in any one year, but students would be free to seek admission to any institution that would accept them, subject to that institution's view of how many students it wished to accept. Thus some high quality institutions might expand, expanding thereby real student choice.

That, too, would mean that all institutions would need to reflect carefully on quality and market position, and price accordingly. The system itself would not constrain student choice by numbers planning.

The mechanism for accomplishing this in Browne was the tariff system. A two-tier system where, in any one year, any applicant achieving a minimum UCAS tariff (let us say two Es of their equivalent) would be guaranteed public support for their higher education. They would then have a *de facto* voucher to use in any institution that would accept them. There would be a separate allocation of funded numbers, distributed to institutions by bidding, that would be available to students who came through non-tariffed routes, access programmes, and APEL, where institutions, as now, believed they had the potential to benefit from higher education.

The cry went up: but the Secretary of State will demine who goes to university! I have a small and a rather large quibble with this. My small quibble is that the Secretary of State would do nothing of the sort, merely set a minimum level of achievement at which applicants would be *guaranteed* funding for their higher education.

Many more would gain admission and funding, and most would end up at the institution of their choice, given the constraints of their prior educational achievement and potential.

But my major quibble is: what on earth do you think happens under the current system.

The Secretary of State determines in any one year how many people will be funded, and the Funding Council decides how many should go to each institution, give or take a flexibility margin. The effect is radically to attenuate student choice. HEFCE operates a managed voucher system on behalf of the government. I genuinely thought everyone in HE understood that. I now regret I made so generous an assumption.

So the tariff mechanism was dropped, and the emerging market was thus doubly constrained by controls on fees and controls on numbers. As a result, institutions can and will price with a quasi guarantee that an excess of demand and rigid quotas will mean the system continues to squeeze applicants into all institutions like a grand toothpaste tube.

I could go on, but time presses. Let me simply observe that, as the Browne recommendations were modified to maximize political support and to diffuse opposition, there was a parallel process, especially when the protests took to the streets, where many groups that had pressed for major policy changes before Browne was commissioned conveniently forgot what they had previously insisted were axiomatic.

Thus Browne got little credit for offering a new deal to part-time learners, which many had regarded as the most important issue before Browne was launched.

Similarly those institutions and groups who had campaigned for an expansion of the system were silent on Browne's vision for an expanded system, and deplored its embracing the only funding method likely to achieve that.

Thus a Coalition faced with the cruel internal political dilemma, and an HE sector that thought it could cherry-pick without doing real violence to the proposals, ensured that what went through – politically brave though it was – left a series of unanswered questions.

So, in a very real sense, the Coalition has unfinished HE business, and business it cannot kick into the long grass. It recognises this in its commitment to producing a White Paper, though, we are now told, a White Paper with more than a tinge of Green. Market disciplines and student choice will have to be made real, so a mechanism for freeing the flow of numbers will need to be found.

Structural realignment remains a priority, and I trust that the White Paper will foreshadow the radical evolution of HEFCE rather than the creation of a new body or bodies. We still need a new approach to widening participation and access, which recognises that the real systemic failing is at 16 – or even before – and thus shifts the political debate away from pillorying higher education towards making progression into higher education a priority for all schools.

And, above all, we must move to a position where short-term political interests are prevented from deliberately misrepresenting the funding system to the disadvantage of students in general and widening participation students (who now have a terrific deal) in particular.

And, above all, I hope we can return to the clarity of the Browne funding decision.

The funding system should be clear. Students pay nothing for tuition, and there is a progressive and affordable system of graduate contributions. Graduates who benefit from their higher education and can afford to contribute do so; those who are not in a position to contribute, for whatever reason, do not.

Maintenance is a separate issue, and students from disadvantaged background should be generously supported, as Browne envisaged.

But what they need is maintenance support, not fee waivers or fee bursaries. For as long as maintenance support and deferred tuition costs are elided, the system will be misunderstood and an avoidable disincentive to participation will persist.

There is thus much that a White Paper ought to pick up. Browne offered an integrated vision for higher education funding, the shape of the system, and patterns of participation.

From this genuinely innovative approaches to quality and regulation might have emerged in a more truly diverse system where student choice was real rather than rhetorical.

The political compromises have taken us some distance from that vision. Some, I appreciate, welcome this, though what we have, and their underdeveloped alternatives, hardly yet represent a coherent vision still less as workable system.

The political space in which the White Paper is being developed is still shaped by the bruising aftermath of ‘the fees debate’; and I worry that too much will be a matter of what ‘we can get through’, too little ‘what we ought to do’.

Let me record my gratitude and admiration to those who have unflinchingly championed the need for a sustainable system of funding a high quality higher education system which genuinely enhances widening participation and opportunity. Lest it seem ungrateful, let me end by reminding us all that there is still more to do, and we would do it so much better if we remembered the profundity of the issues rather than possibilities of partisanship. I remain hopeful we will together seize the moment, but hope, as someone reminded us a little while ago, requires audacity.

Professor David Eastwood
Vice-Chancellor
University of Birmingham

15th February 2011