

The background of the entire page is a blue-tinted photograph of a man in a suit, seen from the back and side, standing at a podium with a microphone. He is looking towards a blurred audience in a lecture hall.

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a **COVID-19** briefing

To a **RADICAL DEGREE**

Reshaping the UK's Higher Education
for the post-pandemic world

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Summary

- Covid-19 is bursting the bubble in universities and Higher Education (HE), exposing the fundamentally unsound nature of the policy of successive governments and of the entire array of HE institutions.
- Many institutions were in a weak financial position prior to the pandemic. They are now facing a massive cashflow crisis.
- The present difficulties could lead to a permanent fall in demand for places in HE. The pandemic has crystallised pre-existing concerns that there is something awry with the product and service universities offer, and the way the system is run and financed.
- UK HE policy has been heading in the wrong direction since the mid 1980s. The government is using the current interruption as an opportunity for a fundamental rethink.
- There is no evidence that the UK's economic performance has been elevated by the expansion in the number of graduates.
- The good being supplied by HE institutions is the signal a degree will send to prospective employers. As a result, the sort of competition that we see in other markets – of price competition, product variation and price differentiation – has been significantly impaired. It has led to overextension, increasing financial fragility and a system which fails to meet labour market needs.
- These problems cannot be resolved by a continuation or expansion of previous policies; instead wholesale reform may be required. Different kinds of institutions could be recognised and encouraged, and they could be organised in different ways, with different kinds of funding and different missions.

- If calls for a bailout are resisted, universities will not be able to continue as before. Moving their funding out of current government spending could give them greater independence and responsibility.
- Ultimately, there is a case for stopping the use of HE as a validation device for employers. Alternative, lower-cost methods could be adopted to certify the qualities and abilities that a degree currently signals. HE could be thought of as a good that can be valuable and enjoyed at any stage in life, and not for an (often spurious) supposed financial benefit.

Introduction

The Covid-19 pandemic has been an enormous exogenous shock for the UK economy and for all of its sectors. Some have actually benefitted (it's an ill wind that blows nobody any good) but for most it has been a seriously negative shock, to both the demand/revenue and supply side. The scale of the impact and damage is only now becoming visible (ONS 2020). If, as seems likely, there is a second wave of the pandemic in the autumn and winter, this damage will become even more severe and transformative.

In many cases though the shock of the pandemic has revealed which sectors and companies were already in trouble or facing long-term decline. It has metaphorically given a push to structures that were already eaten away by termites or had fundamental structural weaknesses and precipitated a collapse. Universities, and higher education (HE) in general, are a case in point.

Universities across the UK have seen a sharp fall in income as overseas students have been unable to arrive and study and income from other sources over the vacations has vanished. The impact of this interruption to income and disruption of cash flow is all the greater because many institutions were already in a weak financial position before the virus struck, with big operating deficits and heavy borrowing. The University of Edinburgh is one of several to have announced a large deficit and others will surely follow (McIvor 2020). The whole of this academic year has been massively disrupted with a consequent impact on income from students attending university in person. Quite apart from that, this disruption will have had a big impact on student attitudes and the way they evaluate their experience, and will also have affected the outlook of prospective future students (Gutterer 2020).

This points up another feature of the shock Covid-19 has brought to the HE sector. Even if there is no second wave, the impacts are still happening and working their way through the system. There will not be a return to the previous state of affairs when the new academic year starts in September: lectures will still be done remotely; small classes will have to be done with social distancing rules and in a 'bubble' (the same students in each group). The social side of university life will be devastated. In other words, the huge disruption we have seen will continue for another year.

Faced with this unappealing prospect, many people will be looking to defer their place from autumn 2020 to 2021 (Bennett 2020; Bentley 2020; Turner 2020). This is another significant blow to income but it also means there will be significant disruption in the 2021-22 academic year with the places available being fought over between those who have deferred from this year and those in the year behind them. The prospect of this may well deter many from applying in the first place.

All of this amounts to a massive cash-flow crisis for universities. However, the real fear of vice chancellors everywhere is that the events of this year and the next two could cause a permanent fall in demand for places in HE. This could be the point where the desire to study at UK universities suddenly goes south.

There are very good reasons for thinking that such fears are justified. Since 1995 UK universities have become increasingly reliant on income from overseas (non-EU) students, particularly where the more prestigious institutions are concerned (Tanner 2020a). In particular there has been growing dependence on Chinese students, who are now the second largest source of income for UK HE (Tanner 2020b). This has been cut off completely by Covid-19. The hostility sadly experienced by many Chinese students in the early stages of the pandemic, and growing geopolitical tensions between China and the West, mean that this decline in demand is almost certainly going to be permanent, or at least long-lasting. There will an equivalent impact on the demand from other overseas students, while the UK's departure from the EU will also bring disruption to this area.

With domestic demand, the fear is that this is the point where many 18-year-olds stop thinking that their future depends on going to university and so domestic demand also falls. Even before the virus arrived there were clear signs that this was happening, with demand for certain subject areas falling even though overall demand hit a record level (Universities

UK 2019). The record total hides a decline of 2.9 per cent in applications by white British students, with this covered by rises in BAME applications and overseas applicants, plus a rise in postgraduate applications (Greaves 2019). If the sector was in good shape financially and in other ways this would be a challenge but no more. However, the business model that the whole sector has followed since the mid-1990s, or even the mid-1980s, means that the implications are far more profound.

What Covid-19 is doing in reality is to burst a bubble in HE. It is exposing the fundamentally unsound nature of the policy of successive governments and of the entire array of HE institutions. It has brought a crisis on that has been brewing and slowly building up for some time.

The most obvious aspect of this, and the one that gets most attention, is financial, as anticipated income is hit in the short term and reduced in the long term, making painful adjustments necessary. That though is only a part of the whole crisis and not the most significant.

The present difficulties caused by Covid-19 have crystallised and clarified a feeling on the part of many people that has been taking shape for several years, that there is something fundamentally wrong and misguided with the whole HE policy of successive British governments, and with the kind of product and service that universities offer, and the way the whole system is run and financed (Lambert 2019). This feeling is shared by many students, graduates and prospective students and also by many faculty and other staff. Crucially it is now also being articulated by members of the political class and in particular the present government.

The impact of Covid-19 on the HE sector and the financial crises it is precipitating in much of it, have already led to the usual calls for a government bailout, with emergency aid to patch up the leaking ship. All the signs are that these pleas will fall on stony ground. Instead it seems the government is using the interruption to normal service as an opportunity for a fundamental rethink of policy. Several ministers have made public statements arguing that the policy followed for the last forty years has actually been bad for young people and has not had the desired results (Adams 2020a; Adams 2020b).

The conclusion is that there should be a major shift in priorities and also in the level and direction of state funding for HE. Unfortunately, the evidence is that the political class has not yet fully grasped the extent of both the

problem and the opportunity that the pandemic represents in this area. However, things are moving rapidly and not just on one side of the political spectrum – the kind of hostile assessment of the state of HE that ministers have been making can also be found on the left (Lambert 2019). This means that the next few years will see a reconstruction of universities and HE generally. It will be blamed on the pandemic no doubt, but the reality is that Covid-19 has brought things to a head and provided the opportunity for a change of course, rather than being the ultimate cause of a shift. The actual ultimate cause is the mistaken course of government HE policy since the 1980s and its increasingly bad results.

UK higher education policy since 1985

The starting point for recent government policy on HE was the Jarratt Report of 1985 (Jarratt Report 1985). This was actually commissioned by the Committee of Vice Chancellors and Principals rather than the Thatcher government, although it went on to have a profound influence on the orientation of government policy. Given its origin it is best understood as a move by a specific interest group (HE senior managers) to recast the sector in their own interests and to elevate their own position within institutions as compared to other groups, such as academics.

The Report recast universities as businesses providing a service to consumers, which meant that they should be run as business firms, competing with each other. This had a strong intuitive appeal to the Thatcher and Major governments (and as it turned out, the New Labour government). For some kinds of institution and provision this made sense, but it had several fundamental flaws as a general model.

The main one was that universities were not like businesses in a market, in several significant ways. They depended upon government for the bulk of their income or at least a significant part of it. There was no real competition between them in terms of price or type and range of product. Instead competition in this curious artificial market took a different form. Most seriously the model of the Jarratt Report and subsequent policy and discussion misunderstood what the product was that they were actually producing, and therefore who the actual primary customers were.

In addition to a recasting of the nature and purpose of HE, which came from inside the institutions themselves, the early to mid-1990s saw a significant move by governments of both parties that set off the second

major element of the policy followed ever since. This was to massively expand the number of people going to University and HE, both in an absolute sense and as a proportion of the young adult population (Mayhew et al. 2004).

Paradoxically, this was associated with a decline in the variety of types of institution and their provision rather than the opposite: HE institutions became increasingly alike, in terms of the product they offered, their internal culture and the way they were run. The (already limited) variety that had existed before was swept away.

In 1992 the Major government turned the polytechnics into universities. This was almost certainly done as a way of claiming to have doubled the number of university students, without actually increasing spending, but it also reflected the emerging theory behind the expansion that all agreed was desirable. Subsequently other HE institutions, such as colleges of HE, were also converted into universities.

This was not just a matter of rebadging: the change altered the relationship between institutions themselves and between them and government. It led to profound changes in internal culture, as the new universities abandoned much of their old traditions and sought to remodel themselves on a specific idea of what a university was, one drawn ultimately from the ancient universities but significantly altered. This alteration also affected the existing universities and they also underwent an internal transformation. The result was uniformity in the type of HE institution with the only distinguishing feature quality or, more accurately, status.

In 1999 the Blair government set an official target of having 50 per cent of 18-year-olds attending university and turned the expansion of numbers from an aspiration to an actuality. The reasons for this policy, supported by both parties, were economic rather than educational in the traditional sense. It was thought that expanding student numbers and university provision would help to meet several policy goals.

The main one was more rapid economic growth; the belief was that having more graduates of any kind (the subjects being studied were a secondary consideration) would lead to higher growth in GDP. The evidence for this was a supposed correlation between the proportion of the population of various countries in HE and levels of GDP, and also between GDP and total number of years spent in HE (see Browne Report 2010).

University expansion was also supposed to boost cultural and economic innovation, and to increase social mobility and provide a replacement for the routes through commerce and industry that had been closed off by the relative decline in manufacturing (University Alliance 2014). Finally, universities were seen as an instrument for urban renewal and the revitalisation of decayed cities and ex-industrial regions (Harrington 2019). All of this made university education an instrument of policy rather than something that was valuable in itself.

At the same time governments of both parties were reluctant to expand this massive expansion out of taxation – for good reasons. Although the thinking was that a result of more graduates would be more wealth and GDP, it was recognised that the bulk of this would be captured by the graduates themselves, in the form of higher lifetime earnings. Quite apart from the sheer cost to the Exchequer (particularly after the crunch in public finances after 2008) it was simply not appropriate to tax those who had not gone to university to support those who did and would get a significant personal benefit.

There were various ways of resolving this such as a graduate tax, but the one arrived at was tuition fees, imposed by the Blair government in 1998 and then sharply increased by the coalition government in 2010 (Anderson 2016). This meant a huge additional flow of income into universities on top of the amount supplied directly by the taxpayer via things such as money for research (awarded through the opaque and mysterious Research Assessment exercise or RAE (now the Research Excellence Framework or REF)). The fees were supposed therefore to switch the cost of buying a degree from taxpayers to the future earnings of graduates but, as we shall see, this has not happened because of a fundamental misunderstanding of what it was those students were buying.

This whole strategy rested on a false assumption. The correlation between GDP or national income and graduate numbers is actually weak. There are some notable exceptions such as Switzerland which has a low proportion of its population going to university but very high GDP per capita (Hanushek 2016). As Alison Wolf has argued, the causal arrow from more graduates to higher GDP is pointing in the wrong direction (Wolf 2002).

The reason why richer countries have lots of graduates is not because those graduates are more productive or innovative and so bring higher growth; rather, only wealthy countries can afford to have so many productive

young people out of the world of work for three or four years. This seems to make university degrees a pure consumption good, of a luxury kind. For some people this is the case and it was the nature of university education for the majority of those who underwent it until about the 1970s. For most students and graduates now though a university degree is very much an investment good – but in what?

What universities (mostly) sell – in reality

The belief that having a degree makes a graduate more productive than a non-graduate and that consequently more graduates mean higher growth rests on what is known as the human capital model of education (Gillies 2015). According to this, formal education increases human capital (abilities and capabilities that make people more productive) by imparting skills. This is recognised by the award of an academic qualification.

The problem is that there is a lot of evidence against this. It seems from empirical evidence that primary education does impart useful skills that are transferable (can be applied in multiple contexts) and make people more productive, such as literacy and numeracy. However, this is much less true for secondary education, diminishing in fact as one goes through the process, and not true at all for higher education, except in some very specific cases. What though *does* a degree do? Why are people prepared to pay a significant amount to get one and why do graduates historically enjoy an income premium?

The answer is given by the alternative model of the value of education, the signalling theory (Caplan 2018). In this the main value of a qualification such as a degree is as a certification or signal to prospective employers. The mere fact of sticking at a degree for three years and getting it tells the employer something about the kind of person you are and the kind of qualities you have (in most cases before you went to university), qualities that make you a better bet as an employee. (The qualities are that you are reasonably bright in the sense of having analytical intelligence, you are rule compliant and conformist, you will work hard, can complete tasks to a deadline, have adequate social skills, reasonable communications skills, and can stick to a task). It does not in most cases say anything

about the particular task-specific skills you have and it does not say much about other qualities such as inventiveness or originality.

In over 90 per cent of cases the graduate will use nothing at all of the skills or knowledge that they acquired at university in their subsequent employment (and will probably forget most of it) – they will pick up the skills they need for a job on the job itself (ibid.). This signal is valuable to employers because they are looking for a particular kind of person that a degree helps to identify (a reliable employee) and they are on the wrong end of an information asymmetry (the applicant knows what kind of person they are but the prospective employer has no idea and no record to go on).

There are some degrees that do impart skills and knowledge that are then used in employment and make the graduate useful for a specific kind of job, such as medicine and engineering or vocational courses in general. These however are very much a minority of degrees overall. It may be that a degree course in general does bring out or strengthen the highly generic qualities listed earlier but if so, this is a very slow and expensive way of doing it. The cost of the degree to the student actually makes it more valuable to the employer as a signal because a signal that is costly to acquire is only going to be acquired by people who really want it, which is an additional piece of information in the signal.

This system, of certification by educational attainment, is not about producing a more skilled labour force – that still takes place in employment. It is about managing the labour market and about regulating and controlling access to occupations and roles that are high paid and (more importantly) high status. There is one fundamental problem: there are not enough high-paid and high-status jobs for all of the people who would like to have one. This means that the system is using the tool of university education to allocate a static or at best very slowly growing number of roles among an increasing number of applicants.

When you combine that basic reality with the business enterprise model of the university found in the Jarratt Report the result is indeed a highly competitive market, but a deeply flawed one. For various reasons the competition will not take the form that it does in other markets - of price competition, product variation and price differentiation - because none of these helps when the good being supplied to the actual primary customers (employers) and secondary customers (students) is the nearly homogeneous one of a signal. To be seen as providing a low-quality signal is disastrous.

Instead the competition takes the form of an arms race, that is a competition where the measure of success is relative rather than absolute performance.

The goal is simply to maintain or improve one's position relative to others rather than to do better by some criterion such as profitability or quality. There are strong similarities to competitive sport and the results are the same as in the Football League – overspending, lack of real competition, and inflated salaries for the internal beneficiaries (senior managers). The other huge problem is that this whole process is naturally self-limiting and ultimately futile. It had already reached those limits before the pandemic arrived, but by the time that happened the policy and its outcomes had hollowed out HE from within. It has only taken the disruption of Covid-19 to bring it down.

Where we were before Covid-19

The expansion and transformation of UK higher education since the 1980s has failed on its own terms since it has not delivered what was intended. The process has also severely damaged what was good about the system before the policy was adopted. The problem is that the signalling function of HE has overwhelmed all of the other functions universities and other institutions might have. At the same time the massive expansion of the supply of the signalling good of certification has gone well past the point of diminishing marginal returns and in doing so has damaged the interests of almost everyone involved, apart perhaps from administrators.

There is no evidence that the UK's economic performance has been elevated by the expansion in the number of graduates – in fact it has made little difference either way. Meanwhile, employers complain repeatedly that graduates are less suitable for employment than before and that they face a shortage of skilled workers of all kinds (Barrow 2011). The number of graduates has increased but the number of skilled workers of all kinds has not and may even have declined (Open University 2018). Social mobility, far from increasing, has actually declined by most measures since the 1980s and university education is still very much the preserve of children from the middle classes (Saunders 2010). The UK's productivity growth figures have been abysmal since 2008 and were almost certainly overstated in the decade before then (because of the distorting effect of supposed productivity gains in the financial sector).

The arms race competition between institutions to attract students and improve their relative position in the league tables, which mainly measure degree results, has led to serious grade inflation. The first-class honours degree has gone from being a genuine mark of distinction and academic attainment to being the norm at some universities. The lower second-class degree, once the typical award, is well on the way to becoming an

endangered species (Coughlan 2019). This inflation in qualification levels is not a reflection of any increase in actual academic ability, quality of teaching, or attainment – in fact much evidence suggests that these have actually declined (Lambert 2019). At best they have remained constant. This all means that the level of the degree has less value as a signal of anything – the noise level is simply too high. In response there has been a further escalation, with jobs that once required a first degree now looking for a masters or other further degree.

This in turn has led to a wider phenomenon of qualification inflation where requirements for employment are concerned. A study in 2013 found that 25 per cent of all jobs required a degree, an increase from 10 per cent in the mid-1980s (ONS 2013). The proportion has increased since then to around a third. The easy explanation is that jobs now require skills that were not needed a generation ago but in fact this is not so. Most of the jobs now requiring a degree are no different in terms of the work done than they were before and when the skills required have changed the new requirements are for skills that can be readily and easily gained without going to university (such as computer and IT skills). What we can see is that the proportion of all jobs requiring a degree has kept pace almost perfectly with the proportion of the labour force with a degree (this now stands at 35 per cent for the workforce as a whole and 45 per cent for the under-30s) (Department for Education 2019). This makes perfect sense if the point of most degrees is signalling, as part of a way to filter applicants and regulate the job market: as the number with qualifications increases, the number of occupations where this way of filtering applicants is used will also rise because the cost of doing so will decline.

This means though that the value of a degree, in terms of the kind of job it gives access to and the income premium it brings, has fallen. This is elementary economics. If a good is overproduced (in this case degrees as signalling devices) the return on that good (given it is an investment good) will decline. As long as the proportion of jobs using a degree to regulate access increases in line with the number of degrees, having a degree will still make employment of some kind more likely than not having one. However, the quality of the job you get will decline, as more and more jobs fall into that category, with a decline in the status and pay of the average graduate job as a result.

Moreover, there are limits to how far this process can go in both directions. There are many jobs where requiring a degree is not helpful, and may

even be counterproductive, in terms of identifying desirable applicants. On the other side the level of salary and status will come to be at a level where the graduate may reasonably conclude that the investment of time and money in getting a degree was simply not worth it. Meanwhile, many young people are being diverted into formal higher education and this partly explains the shortage of skilled technical workers (the other reason is the poor state of the UK's vocational education and training provision).

We can now see this declining return very clearly: 35 per cent of graduates are in jobs that are not degree level (BBC 2019) and only 57 per cent of younger graduates are in skilled or supervisory roles, a decline of over 4 per cent since 2008. There are more and more graduates whose expectations of a well-paid supervisory role have been dashed and who find themselves doing jobs that they could have got without going to university and giving up three years of earnings. This proportion will almost inevitably increase in future if student numbers remain at their present level, because of the threats from automation and artificial intelligence to many white-collar occupations and roles that currently require a degree (Muro et al. 2019).

The decline in the quality of the average graduate job in status and income terms also shows in the steady decrease of the graduate earnings premium. For just under half of male graduates it now stands at below 10 per cent and for all graduates it has fallen (obviously that is an average that conceals wide variation) (HESA 2019). The key point is the likely direction of these trends, which is for them to continue.

This declining return is clearly happening and is accelerating, as economic theory would lead us to expect, given that an overshoot in production of degrees will lead to an accelerating decline until a stable equilibrium is reached between degrees and their perceived cost and the returns a degree brings. The question of course is both where that equilibrium will be if we continue as at present (unlikely) and where it should be as a matter of policy.

Returning to the point made earlier about the impact of Covid-19, the realistic expectation has to be that there is some way to go before an equilibrium is reached. Before the pandemic students and graduates were increasingly disgruntled about their indebtedness (even if about half of them would never actually repay their loans), disappointed with their job prospects and therefore likely to conclude that they had made a bad

investment. The social pressure to go to university is still very strong but as this feeling persists that will be eroded. The result will be a stabilisation of the number wanting to go to university followed by a decline. The disruption from the pandemic will accelerate this and make it happen much more swiftly. All of this will put severe pressure on institutions that have overinvested in buildings, facilities and staff in the expectation of a rising income stream.

One consequence of this that must be seriously worrying the Treasury is that it is, in reality, still the taxpayer who provides the bulk of student funding. Official reports estimate that at present 47 per cent of all student loans will never be repaid, because the graduates will not go on to earn enough (Harrington 2019). This means that this very large sum of money is ultimately funded out of taxation, even if it does not show up as such on the books. The irony is that the amount that we are talking about here is the same as it was before the switch to fees and the subsequent increase in those fees took place, so the political grief that caused was actually for nothing.

Meanwhile, morale is low among academic staff. The transformation of most of HE into a certification and signalling producer means that the whole experience of university teaching has lost its lustre as staff are confronted by students whose only real interest is in getting a degree rather than the subject they are studying. They are also under increasing pressure in all kinds of ways, not least from the sudden and marked increase in personal and psychological problems among students over the last decade and a half (reflecting a rise in these issues among all young people). For most students though going to university is still a pleasant experience, but probably not as much as it once was, and much of the enjoyable aspect comes from things that can be enjoyed whether one is a student or not.

Moreover, the area where higher education might be expected to be making a major contribution has also been a disappointment. Since the creation of the RAE in 1986 large amounts of money have been put into university research, with this being distributed by a mechanism that is opaque and Byzantine even by the standards of the British civil service.

The explicit aim was to think of research output as a product, which was useful to the economy because of its contribution to economic growth, and to ensure that the taxpayer got value for money in those terms. Even if one accepts the argument that state funding and support is needed for

scientific and technical research that does have direct economic value (for a critique of that idea see Kealey 1996), this does not apply to the greater part of academic research. Here the results have been at best disappointing, at worst profoundly damaging.

There has not been an increase in the number of publications of genuine quality, that add to knowledge – the number is about the same as before. There has been however an increase in the publication of what we may call ‘half-baked research’, published before it should have been in order to meet the pressures of the funding exercise. The researchers meanwhile find themselves under constant and intense pressure to produce, no matter what. As studies have found, all of this has caused damage to the research culture, unintended and long term but serious (Elton 2000).

What to do now?

The expansion of HE under a series of governments from Thatcher through Major and Blair, when combined with a shift in the self-definition of universities and the transformation of their product from a varied range of goods to the predominant one of signalling, led to a destructive form of competition between most institutions. This was similar in kind to what can be observed in fields like competitive sport and has had the same outcome – overextension and increasing financial fragility. Meanwhile the logic of the signalling model itself has led to a decline in the value of the signal as it was overproduced and has resulted in a clear decrease in the return to students from their investment in a degree. This system also fails to meet the needs of many employers.

The system had reached a dead end and was facing slowly increasing problems when the virus arrived and made the situation acute. The problems faced by not just individual institutions (severe as these often are) but by the system as a whole cannot be resolved by a continuation of the previous policy: the expansion of numbers has clearly reached a natural limit and is now past the point where returns decline rapidly.

There is little prospect of the government bailing out the system, with universities being saved in the way banks were after 2008. The political class on both sides recognises that we have reached an impasse and statements from government ministers show that there is a major rethink under way. Clearly, the next three years are going to be a time of crisis for universities and HE in general. Crises however are also the point when a situation is resolved. Unfortunately, the early signs are that the government is still fixated on the idea that graduates are the driver of economic growth – it is just, ministers seem to think, that we have the wrong kind of graduate.

In particular there is a fixation upon STEM subjects¹ and a desire to promote them at the expense of other areas such as humanities and social science. They could actually be bolder than that. What kinds of directions might they think of exploring?

Clearly, opportunities for reform would be missed if overextended and distressed institutions were simply bailed out so that they could continue as before. This does seem unlikely but the pressure to do it will be immense. It could be a mistake though to continue with the current model but only support specific subjects and institutions while letting the rest hang. Similarly, a policy of merging and closing some institutions to create a slimmed down system would still be driven by a mistaken idea of what universities do and the kind of contribution they make to society. Such a reorganisation and reconstruction of the sector could mean much was lost and would not address the fundamental problems.

Instead, ministers could reorganise the system, closing many institutions and courses but also offering the assets and staff to people and organisations who wish to try something new. They could also take the opportunity to completely rethink what HE is and what kind of good it provides - this could be done in a way that creates a strong consensus if handled correctly. What might be some of the directions?

- The idea of all degree granting institutions having the same structure and producing the same kind of product is misguided. Instead, different kinds of institutions could be recognised and encouraged. They could be organised in different ways, with different kinds of funding and different missions. This is not simply a matter of going back to the way things were before 1992; there is a case for going beyond that. Instead of having one kind of institution, modelled ultimately on the ancient universities but with most being cut-price versions, there could be several. For example, why not have US-style liberal arts colleges with high quality teaching as the focus rather than research?
- In particular there is a case for distinguishing, separating and expanding the genuinely human capital enhancing courses such as medicine, engineering and other STEM subjects, and vocational education and training. This would mean a range of institutions dedicated to these kinds of area.

1 Science, technology, engineering and mathematics.

- Institutions could be given greater independence and responsibility by moving their funding away from current government spending. One way to do this, which is costly in the short term but saves a lot of money in the long run, is to switch to a model of endowments as the main source of finance. The endowments can be built up from a combination of government and private money.
- In the meantime, there could be a move away from a single way of funding both institutions and students to a variety of methods. If governments do wish to favour certain subject areas then give them generous grants but only after a competitive qualifying process. There is still a place for loans but these could be genuine private sector ones, not a disguised form of taxpayer finance. This would also provide a check on excessive growth of student numbers – private lenders are unlikely to fund subjects and courses that are unlikely to result in their graduates earning enough to service and repay the loan. Straightforward fees are also a possibility but with a genuine market so that there is actual price competition rather than a false market with only one price. Human capital bonds in which an employer invests in a prospect in return for repayment of the bond after graduation or direct sponsorship by both firms and third sector bodies are other options. Using bursaries and scholarships on a much larger scale would fit with a move to an endowment-based funding model.
- At the same time the artificially inflated cost of higher education could be reduced. In particular, this could be achieved by moving away from the distinctively English (it is not Welsh or Scottish or Irish) practice of the residential university, where students study and live a considerable distance from home. This makes English HE unusually expensive for students in comparison to other countries.
- Different models of constitution and ownership for institutions could be considered. For some it makes sense to have a collegiate model where they are a corporate body owned by their fellows. Others could be owned by a variety of bodies, including local authorities, trade unions, chambers of commerce, or associations of some kind. Institutions could also be registered charities or perhaps profit-making companies (but unlike the spurious for-profits of the US which are mostly scams to get government backed student loans money). Again, as with funding models and types of academic output, pluralism and variety could be welcomed.
- A range of different forms of attendance could also be revived (which would go along with the wider range of funding methods for students). One of the features of the last few decades has been the decline

of things such as degrees done as sandwich courses or on day-release, and also of part-time study. This was not intended but was a consequence of the way the decisions taken worked out, due to the logic of a signalling model.

- In research, the way science is funded has been allowed to drive everything else. Again, there could be a variety of methods. If it is decided that the state should fund basic scientific research, then it could be done through a separate and dedicated body – in other words revive the original system of subject area research councils for this. What could also be done though is to encourage private donors, through measures such as tax incentives, so as to try and slowly create the culture of private philanthropy that exists in the US. For much academic research, the idea that it is or should be a source of income could be abandoned: if enabling staff to do scholarly research is a part of an institution's mission then that could be funded out of the regular income or the income from an endowment.

The major areas where a more philosophical reset might be considered are these:

- HE could stop being used as a certification device, except for the small number of exceptional cases where there is genuine significant human capital enhancement (medicine, engineering, music, architecture, veterinary surgery). It could be recognised that much or most capital enhancement takes place outside the formal educational framework, in the workplace or in practice.
- Methods can be developed to measure and certify the kinds of qualities that a degree signals now (aptitude, character and foundational ability), but which do not require a three-year degree course. Examples might include: public tests or assessments, mostly of a practical nature; assessments run by private sector bodies such as trade and sector associations; aptitude tests conducted by prospective employers; and work trials that only last a short time and do not give any employment rights (so that both sides are protected from exploitation).
- If it is accepted that a traditional university education can be valuable in itself for many people (a pure consumption good in other words) then there would be few concerns about 50 per cent of the adult population having one. It does not follow that it is a good idea to have that proportion of 18-year-olds undergo it, or to put it another way it does not follow that the only time when somebody can and should have

that experience is when they are 18 to 22. Reflection would lead us to reject this. Many people will gain much more from the experience as a thing in itself later in life, when they have acquired experience and confidence. It could be thought of as a good that can be valuable and enjoyed at any stage in life, and not for an (often spurious) supposed financial benefit.

UK universities have been driven into a metaphorical ditch by the pandemic. However, this could only happen because they were already on the wrong road and driving right at the edge. The thing to do is not to try and get them out of the ditch and back on the road as they were before, which is not practical anyway. The whole enterprise may need to be rethought, taking advantage of the crisis to redesign the practical side of things as well.

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