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cuaree@correo.xoc.uam.mx
Universidad Autónoma Metropolitana Unidad Xochimilco
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Williams, Gareth
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The Higher Education Market in the United Kingdom

GARETH WILLIAMS*

No one intends to establish a market economy: such a state of affairs comes into being through the individual bargaining arrangements of people exchanging goods and services to maximise their advantages and minimise their deprivations.
(MacRae, 1974:73)

BACKGROUND

At the peak of the marketisation surge in UK public utilities and services in 1994, the senior Department of Education and Science official who had been in charge of higher education policy throughout the 1980s wrote: 'For my own part, I have always found it hard to discern any clarity of theme or practice which would justify an assertion that a 'market approach'… … was being pursued' (Bird, 1994). In keeping with the English tradition of philosophical and policy pragmatism, theoretical discussion of markets in higher education has tended to follow policy rather than pave the way for it. For most of the two and a quarter centuries since Adam Smith wrote 'The Wealth of Nations' market transactions have been treated as the natural form of economic intercourse and the task of government intervention has been regulation to prevent the worst excesses of market behaviour. It is the contention of this paper that British higher education stumbled into a closely regulated higher education market through a series of *ad hoc* responses by universities and government to immediate problems and there are many loose ends and unanticipated consequences.

The United Kingdom was one of the first countries to adopt the new public management policies of the 1980s and 1990s. The relatively slow growth of the UK economy throughout the forty years following World War Two, compared with most other OECD countries exacerbated by the world economic depression of the later 1970s brought about a severe crisis of confidence in what had for a third of a century come to be known as the progressive consensus over social welfare and public control over the provision of public services and utilities. The Conservative government elected in 1979 had one overriding aim: to lower the near hyperinflationary price rises of the preceding few years and to do so by reducing public expenditure. Higher education was initially a bit player and subsequently an incidental actor in the dramas of the 1980s that ended with its transformation following the 1988 Education Reform Act and the 1992 Higher and Further Education Acts.

However, as institutions, British universities provided fertile soil for the growth of market forms of organisation and entrepreneurial behaviour. First they were autonomous property owning institutions with their legal independence guaranted by Royal Charter[1] or Parliamentary Statute. This gave them considerable independence from direct governmental or Parliamentary intervention. Each university was fully responsible for the management of its own financial affairs which meant that financial survival was not guaranteed. Universities also had a very high level of discretionary powers in their academic affairs. They appointed their own staff, recruited their own students, decided their own curricula and awarded their own degrees. They were subject only to the constraints imposed by their Charters and these were couched in very general terms. Furthermore, British universities throughout the twentieth century, shared with their counterparts in most Western countries, the belief that their academic

* Centre for Higher Education Studies, Institute of Education, University of London.

1. The legal basis of the most recent generation of universities, designated in 1993 out of former polytechnics and colleges, is Parliamentary Statute. For practical purposes the difference is small, though the academic staff of the 'new' universities have far less influence at the top levels of institutional governance than in the older universities (Shattock 2002).

staff should undertake both teaching grounded in high scholarship and research at the cutting edge of knowledge. However, after the big expansion of the late 1960s it became clear that government policy criteria for the distribution of research funds must differ from those for teaching. Finally, although in 1980, universities received most of their funds from the government they were required to render little account of the use of these funds. It was the realisation by government in the 1980s that it could set conditions on the use of the funds it provided that has been at the heart of much of the friction between universities and government in recent years.

In economic terms British Universities remain independent, non-profit, multi-product enterprises whose core business is the creation and dissemination of knowledge. They decide their own profile of outputs and the processes they use to produce them. They depend very heavily on public funds but they are not legally required to do so. Their status as charitable foundations does not permit them to make profits but they have full discretionary powers over any financial surplus they achieve. Until 1980 virtually no use was made of this power because universities were assured of an incremental rise in funds from the government year by year.

Government became seriously involved in the funding of these enterprises only after the first World War and the dominant source of finance only after the second World War. At that time, in the late 1940s, partly because of the experiences of Nazism and Fascism, the mainstream political ideology in the West was strongly in favour of academic freedom and decentralised control of educational institutions. The UGC[2] system enabled universities to be financed largely by government but to remain free from political involvement in the management of their academic affairs and their internal resource allocation. Governments made grants to the system as a whole and not to any individual university. The UGC, whose twenty members were broadly representative of university interests, was responsible for allocating money to individual universities and the government took no overt part in this. The UGC applied the principle of institutional autonomy to its own allocations to individual universities: they were single "block" grants made on a more or less incremental basis for five years at a time, with only a very general indication of the bases on which the grant had been calculated. Universities were free to spend their recurrent income as they wished, provided they remained within the provisions of their charters, which were framed in very broad terms. Until 1988 successive governments accepted that their main role was to subsidise universities and, from time to time, to exhort them to behave in accordance with what the government considered to be the public interest. However, it was largely left to each university to decide whether it would heed the government's exhortations.[3]

In many ways the period between 1945 and 1980 was a golden age for British universities and the academic staff working in them. They were funded generously by the state as institutions whose main function was to form the new generation of national leaders in the public service, in scientific research and the liberal professions.[4] The state met most of their costs and made very few demands on them. Academic criteria alone dominated their decision making in both teaching and research. A generation of university teachers came to believe that this was the natural order of things and injudiciously assumed that it could continue indefinitely. One example of the complacency of this belief was the view, expressed by some in universities in 1981, that all members of the UGC should have resigned *en masse* rather than accept the severe financial cuts imposed by a recently elected government with a large parliamentary majority (See Kogan and Kogan, 1984).

TRANSFORMATION

However, the transformation of United Kingdom higher education in the 1980s cannot be understood on the basis of the universities alone. From the late nineteenth century onwards there had developed alternative institutions of postsecondary education concentrating mainly on technical and vocational training for young people from relatively poor families. These institutions were the responsibility of local education authorities.

One early indication of government impatience with some consequences of university independence was the reorganisation of these disparate colleges into a separate sector of higher education directly under public control in the late 1960s, contrary to the recommendations of the Robbins Report.[5] This gave rise to the binary system in which the polytechnics and other colleges of higher

2. The University Grants Committee, consisting largely of members of the academic staff of universities, advised the government on university needs and distributed government grants to universities.

3. For a useful account of the UGC in its heyday see Shattock and Berdahl (1984).

4. Although the generosity became somewhat less liberal after the world oil crisis of the 1970s and the emergence of some unemployment amongst recent graduates.

5. A major government sponsored enquiry into the future of higher education, which published its report in 1963. One of its prime recommendations was that in due course all major higher education institutions should become autonomous universities.

education were to be funded primarily as teaching institutions in which applied research was to be subsidiary to their core function of expanding student participation. However, from the viewpoint of central government policy implementation, local authority control was in practice little better than the autonomy of the university sector, since the polytechnics were to remain under the control of the local education authorities which were themselves, at the time, centres of independent political power.

By 1980 the public sector of higher education was becoming large enough and politically and economically strong enough to challenge the monopoly power of the universities. Many of the developments of the following two decades can best be understood in terms of the competition between two different conceptions of the underlying purposes of higher education.[6]

The 1980s was a decade of radical change. But it was change initiated by wider economic policy choices rather than a result of carefully debated ideas about the finance of higher education. The government was elected on the basis of promises to reduce inflation and to reduce taxation and proposed to achieve this by reducing what it saw as waste in the public services resulting from excessively bureaucratic forms of organisation. In many public services this resulted in fundamental changes in their structures: nationalised industries and public utilities were privatised, and internal markets were imposed on others.[7] In the university sector consisting of autonomous institutions, such structural change was unnecessary. However, as part of a fight to wrest political power from the local authorities, in 1988 the government gave other higher education institutions a legal status similar to the universities. The rest could be achieved by keeping all higher education institutions short of money and manipulating the terms on which public funds were made available to them

Soon after the 1979 election the new government imposed massive public expenditure cuts and higher education's share was the removal of all public subsidy in respect of students in higher whose permanent residence was outside the European Community.[8] This removed about 6 per cent from the income of universities. In the following year this cut was followed by a further reduction of 10 per cent in the government grants to higher education institutions.[9] Although these expenditure cuts were made purely for public expenditure reasons, they were a watershed in terms of their effects on universities and perceptions of appropriate forms of public finance for them. (Moore, 1987) A generation of academic staff and academic managers had learned to rely completely on annual incremental increases in government funding. The shock of the 1981 cuts was traumatic. However, when faced with the realities of reduced expenditure and possible bankruptcy, some universities immediately began to exploit their independence and to develop a variety of forms of income generation as well as expenditure reduction. Among the strategies vigorously pursued by many universities from the early 1980s onwards were:

- Energetic recruitment of full fee paying foreign students;
- Maintenance of the 'unit of resource' (average cost per student) by restricting student recruitment;
- Establishment of university companies to sell teaching and research services;
- Formalisation of consultancy services by members of academic staffs and charging of full direct and indirect costs for any services provided;
- Creation of Science and Business Parks;
- Renting out teaching and living accommodation at times it was not required by students (Williams, 1992).

Such explicit marketing activities, combined with financial stringency, raised a variety of management problems and instigated wide-ranging management changes in universities and colleges.[10] Traditional collegial styles of management were unable to cope with the much harsher financial environment and the realisation that government could no longer be relied on to guarantee the financial survival of any university. 'Save half, raise half' was the much cited response of Warwick University (e.g. in Williams 1992 and Clark 1997). Many others soon followed Warwick's example. This immediately raised questions of how far it is appropriate for a university to go in generating income from any source that is not part of its core mission of scholarly teaching and research? Should income generation take precedence over other aspects of a university's mission? How well

6. Tyrell Burgess (19??) described these as the 'service sector' and the 'autonomous' sectors of higher education: one driven by social and economic needs for qualified manpower, the other by the disinterested pursuit of 'scholarship'.

7. Amongst a large literature on this 'new public management' in the UK Power, 1997 and Pollitt 1999 are widely cited.

8. One sign that this was a hasty and ill thought out measure was the fact that initially it was intended to apply to European Community students as well. It was only when legal action was threatened that it was accepted that the Treaty of Rome required all students from within the Community to be treated on the same terms as United Kingdom students.

9. A very readable, if somewhat polemical account of these events and their immediate effect on universities is given in Kogan and Kogan (1983).

10. A new specialist literature on higher education management began to emerge, for example Lockwood & Davies (1985) Jarratt Report (1984).

could activities that were undertaken primarily for income generation cohabit with traditional academic activities? One aspect of this debate that has still generates tensions in the academic profession is the extent to which success in income generating applied research and consultancy should supplement, or replace, traditional academic criteria in making staff appointments or promoting staff to senior positions.[11]

Despite the problems, success in such ventures by several universities showed that they were able to generate supplementary income by responding to market opportunities when it was necessary. No university was bankrupted by government expenditure reductions in the 1980s though some came near to it. (See Shattock 2003) One clear quantitative indicator of market success was that by the middle of the 1980s British Universities were recruiting more foreign students than they had in 1979, the last year in which they were fully subsidised by the British government.

However, there were some, examples of governments needing to bail out universities. One influential example that undoubtedly influenced government thinking when it was drafting the 1988 Education Reform Act, was that many universities were unable to reduce their staffing levels in response to the expenditure reductions because they had given most of their teaching staff lifetime tenured contracts very early in their careers.[12] In 1983 the government had to set up a special early retirement scheme to allow universities to recompense staff for the loss of their lifetime tenure and this proved very expensive. Furthermore there was evidence that it was often the most able staff who could find employment outside the British university sector and were most likely to take advantage of the terms offered. This was one of the main reasons why the government removed the legal right of universities to offer lifetime tenured appointments in the 1988 Act. It may be seen as a further step in the regulation of a market oriented system, but it was also a response to a specific financial pressure.

However, the overall success of universities in dealing with financial stringency made possible the next major step by the government, which was to formalise the procedures that had evolved initially as a response to financial exigencies. The 1988 Education Reform Act acknowledged the successful market performance of the universities. It transformed them from trusted providers of high-level teaching and research into audited sellers of academic services. That this was the intention is confirmed in letters sent by the Secretary of State for Education and Science to the chairmen of the Universities Funding Council and the Polytechnics and Colleges Funding Council on the day the Education Reform Act passed into Law.

> *I shall look to the Council to develop funding arrangements which recognise the general principle that the public funds allocated to universities are in exchange for the provision of teaching and research and are conditional on their delivery.*
>
> *I very much hope that it will seek ways of actively encouraging institutions to increase their private earnings so that the state's share of institutions' funding falls and the incentive to respond to the needs of students and employers is increased* (Letter from the Secretary of State for Education and Science to the Chairman of the Universities Funding Council 31 October 1988).

The Funding Councils responded to the first of these exhortations by instituting formula funding and a system of 'financial memoranda', in effect contracts with each university, which specified what was required from the money allocated, and the establishment of formula funding models that set 'prices' for each student recruited by a university. Furthermore, unlike the former University Grants Committee the majority of the members of the new Funding Councils inaugurated by the Act, were appointed by the government from outside universities.

FINANCIAL INCENTIVES AND THE ACHIEVEMENT OF MASS HIGHER EDUCATION

By the late 1980s government policy was being influenced by the inauguration of the annual OECD statistical series *Education at a Glance*. These revealed authoritatively that UK rates of participation in higher education lagged well behind most OECD countries. This and a growing belief in the importance of a well qualified labour force for success in the rapidly emerging knowledge society shifted government concern from saving money to the need for expansion to underpin economic growth. Until 1988 the universities had claimed that further expansion must be achieved at existing levels of average cost per students, which the

11. One solution that has been fairly widely adopted, especially but not solely in the universities that were created after 1992 has been to create parallel career paths in which specialists in various forms of income generation can earn high salaries but not senior academic titles. In some cases they have been academic titles as well. It is thought that this increases their respect by the more traditional academic profession. A more mundane problem was tax status. Legally, universities and colleges are charitable institutions. This gives them a variety of tax privileges provided they keep within the terms of their charitable status. However, if they start to make profits (and when does a surplus become a profit?) from their income generating activities, and particularly if this puts them into direct competition with private sector companies it may be seen as unfair competition and can lead to large tax demands.

12. Here were economic reasons for this to achieve the necessary growth in staff numbers at reasonable immediate cost during the expansion of the late 1960s. See Williams, Blackstone, Metcalfe 1983.

Treasury[13] considered would be too expensive. (Bird 1994) The Department of Education and Science called the bluff of both parties. In 1989 the government transferred about 20 per cent of the core funding away from direct payments to institutions and used it to subsidise payment of fees by students directly to their universities and polytechnics. In effect this was a student voucher scheme that covered about a quarter of the teaching costs of universities and colleges. The universities had by now become accustomed to the active recruitment of students from abroad and they began to apply their newly found marketing expertise to the recruitment of British (and EU) students at marginal costs.

These two changes, formula funding based on student numbers and fee subsidy of at least a quarter of teaching costs, set the scene for an explosive expansion of student numbers. After more than a decade of financial stringency higher education institutions were short of cash and for the first time the polytechnics and colleges were able to take their own financial decisions. Additional students meant additional money. They responded to the changes in funding mechanisms by recruiting as many full cost students as the Funding Councils allowed, and then as many "fees only" students as they could find. The Polytechnics and Colleges Funding Council, which existed from 1988 to 1992, accentuated these incentives by holding back up to 10 per cent of the funds available and held what was in affect an auction. Each year polytechnics and colleges were invited to offer places for additional students and convincing bids at the lowest price received additional resources up to the point at which the money made available by the government ran out. In the following year the average allocation per student was reduced to the average after the bidding was completed, thus reducing standard income per student for all institutions whether or not they had participated in the bidding process.

The result was a 75 per cent increase in new first-degree enrolments of between 1988 and 1993 with many institutions doubling their enrolments over the 5-year period. One consequence was a very sharp fall in the average income from public funds per student which fell by some 25 per cent over the same 5 year period. Only now the debate began about whether piecework buying of teaching services was an appropriate way of financing universities and if so what kind of regulation of the market was needed. At the same time, and partly as a consequence of the declining income from additional UK (and EU) students all universities and colleges continued to exploit even more vigorously the overseas student market.

13. Ministry of Finance.

The expansion policy of the early 1990s was so successful (see Annexe) that by the middle of the decade the government was becoming concerned on two counts. One was a fear higher education institutions[14] were showing insufficient regard for quality as student numbers exploded at ever decreasing unit costs. The other was that, despite the partial replacement of student maintenance grants by loans and the fact that through the marginal cost pricing mechanism described above each additional student was costing public funds less than the previous average cost per student, the expansion was so rapid that total government expenditure commitments to higher education were growing at an unacceptable rate. In 1995, therefore, the expansion policy was reversed, a clamp was imposed on further uncontrolled expansion and a university became liable to a "fine" for every student it recruited above the target number set by the Higher Education Funding Council.

The ceiling on student numbers lasted until 1998 when the new Labour government reversed the policy of restricted enrolments and began to encourage further expansion, a policy development that culminated in February 2003 when a major government White Paper confirmed that

> *National economic imperatives support our target to increase participation in higher education towards 50 per cent of those aged 18-30 by the end of the decade. Participation in England is already 43 per cent* (DfES 2003, 57).

However, the government is discouraging expansion of traditional three year university degrees. The White paper also announced that:

> *We want to see expansion in two-year, work-focused foundation degrees; and in mature students in the workforce developing their skills* (ibid, 60)

Then Higher Education Funding Council for England has been instructed to concentrate additional funding for teaching on two year 'foundation degrees'.

Each university and college is set target numbers of students each year and is paid a 'price' for each student recruited up to this target.[15] The quality of the education provided is monitored by the Quality Assurance Agency. Unless a course is deemed to reach an acceptable standard the funds provided for that course may be withheld. In practice this

14. By this time, following the passage of the 1992 Higher and Further Education Act, (which can be seen as an addendum to the 1988 Act) the great majority of students were in institutions called universities.
15. There are 4 price bands medicine, laboratory subjects, part laboratory subjects, and other subjects.

sanction has not been used directly because universities have discontinued the very small number of courses that are deemed not to have reached the required standard. At the other end of the spectrum university departments whose courses are judged by the QAA to reach a very high standard may be given higher target student numbers, and hence higher potential income from the funding councils.

For research each university is given a basic allocation determined by the quantity and quality of its research as determined by a 4 year 'research assessment exercise' in which their research during the previous four years, and potential for the future, are peer reviewed. This is another feature of contemporary English higher education where the market is regulated by government influenced collective decisions. Each university department is given a score from 1 to 7 depending on the extent to which a national peer review panel deems its research to have met national and international standards during the previous four years. This part of the exercise is based largely on academic criteria.[16] However, the formula which converts of these scores into cash depends very heavily on government policy and fierce bargaining between universities. Appendix table X shows the current main coefficients of the formulae. Any department with a score of less than 4[17] in the last research assessment exercise receives no basic research funding. Conversely a medical department with a score of 5* receives per member of staff about 5.4 times as much per member of staff` as a history department with a score of 4. Obviously the universities with many high scoring departments argue for this weighting to be increased and those with lower scores seek to have the gradient made flatter. During the twenty year period in which the research assessment exercise has been in operation this gradient has become considerably steeper thus concentrating available research funds in fewer universities; the 2003 White Paper proposes to make it steeper still.

Since the mid-1990s higher education institutions have also been eligible to receive 'third leg funding' from the higher education funding councils which is broadly intended to provided a basis for work that serves business and the community other than through academic teaching and research –short training courses, consultancy etc. All universities and colleges are eligible to receive such funds but they must be bid for and are allocated on a competitive basis depending on the amount of effort the university appears to be willing to put into this range of activities.[18] These funds are at present very small in relation to those for teaching and research but the 2003 White Paper has announced that they will expand considerably over the next few years (but will remain tiny compared with mainstream academic research.[19]

Although the principles underlying the funding of teaching and research and third stream activities are easy to state each of the broad streams is itself a network of trickles of funds, four price bands for teaching subjects, eighty research assessment categories and individual bids for third leg funds. The details of the formulae and procedures involved are complex[20] and it is partly through manipulation of the small print of the formulae that government policy is implemented in practice. For a university, determining the appropriate strategy to maximise institutional income and safeguard it in the future are a major responsibility of any senior management team and governing body. Long term academic reputation, day-to-day cash flow, career development of staff, student learning and student welfare, the state of the buildings and equipment and relations with the local, national and global communities must all be balanced.

THE REGULATION OF TEACHING QUALITY

The new funding mechanism introduced by the 1988 Act was intended to stimulate expansion but the extent of its success in doing so was entirely unexpected. It was appreciated, however, that expansion combined with reduced public funding per student would bring risks to quality and a political game began in which universities and government competed to control the quality assurance process.

The initial establishment of quality assurance procedures by the universities was typical of many markets in which commercial suppliers, while competing fiercely with each other, collaborate to meet an external threat to their collective well being. In this case the threat perceived by the universities in 1989, was government infringement of their autonomy by setting up an agency to monitor and regulate the quality of their teaching. The universities themselves, therefore, set up the Academic Audit Unit, which had the mission of ensuring that suitable

16. Strictly speaking the score is 1-5 but level 3 is split into 3a and 3b and level 5 is supplemented by a 5* indicating that all the research in a department is deemed to have reached world standards.

17. A score of 4 indicates that most of the research is deemed to have reached at least 'national levels of excellence'.

18. In 2003/4 the allocations to these 3 streams of funds in England are Teaching £3,400 million, Research £1,000 million, Business and the Community £58 million.

19. In 2003/4 the amount allocated for 'Business and the Community' funding in England is £58 million, compared with £1,042 million for research and £3,399 for teaching.

20. A useful description of the current formulae is available in HEFCE (2003) available at www.hefce.ac.uk

quality assurance mechanisms were in place in every university, and that they were operating effectively. In the event this did not convince the government of the day that it offered adequate safeguards for students or taxpa-yers and in 1992 Quality Assessment Committees were established within the Funding Councils.[21] These organised direct observation and monitoring of teaching in individual teaching programmes. For a few years, therefore, universities, which had had little previous experience of external evaluation of the quality of their teaching, had two competitive agencies monitoring their teaching quality.[22] In 1997 the two agencies were combined into the Quality Assurance Agency, performing a function not dissimilar from the regulatory agencies of the privatised public utilities.

Acceptable standards of teaching, externally assessed, are now a condition of the receipt of government grant. The parallel intention to reward universities and colleges adjudged to have particularly good teaching has proved more difficult to implement. Why should extra taxpayers' money be given to institutions that are already providing high quality teaching? This contrasts with research, which has led to another not entirely anticipated market response. There is a strong case for concentrating research funds where they appear likely to be uses most effectively. At the level of individual universities and departments the rewards for research success are very considerable so universities have been encouraged to shift resources out of teaching, for which, beyond the minimum threshold, there are very few additional rewards, and into research for which the financial rewards of a high research assessment score are very considerable.

It is possible, however, that the quality of at least the documentary support for students has improved for students as departments have sought to obtain high scores from their QAA inspections.

DIVERSIFICATION OF FUNDING SOURCES AND ITS CONSEQUENCES

During the ten years following the 1981 cuts most universities most universities increased their non-government income very considerably (Williams, 1992) and this trend has continued almost unabated since then. In 1979/80 over 75 per cent of the income of British universities came directly from the government, the corresponding figure is now less than 40 per cent (HESA 2003) and in several universities much lower.

One consequence of this diversification of funding sources is that the spectrum of activity considered legitimate for universities has broadened very considerably. From being institutions dedicated to research and high level learning teaching many have become quasi-commercial enterprises selling services in the knowledge industry to a wide range of purchasers. This has now been formally recognised by the Higher Education Funding Council, which has recently established a third stream of public funding to underwrite links with business and the community.

Another consequence of the diversification of funding sources was that the active management of universities and polytechnics became much more visible. Financial management in particular was strengthened. Nearly all universities now have some kind of resource allocation model (RAM),[23] which is essentially a set of formulae that constitute a planning and management tool for allocating resources on a systematic basis to each cost-centre in a university. Departments and centres which are not financially viable within their RAM allocation must reduce their costs, raise income from other sources, seek subsidy from the rest of the university because of their non-financial contributions to its well-being, or become candidates for closure.

RAMs vary from those that retain most strategic decisions[24] as the prerogative of a central strategic management group within the university, allocating financial resources to dispersed cost centres only for day to day spending, to models which delegate most spending decisions to devolved cost centres while the central management group monitors only their overall income and expenditure position and a few quality indicators such as research assessment and teaching quality scores. Some RAMs mimic the criteria used by the Funding Councils in their allocations to the university, and others are built up within the institution itself based on its own perceptions of its mission and financial priorities (Jarzabkowski, 2002).

Centralised strategy and funding of new initiatives but considerable devolution of authority to implement the strategies and initiatives is now very common in British universities. Sometimes faculties, such as medical schools and business schools have

21. The full story of these developments needs also to take some account of what was happening in the non-university sector up to 1992. The polytechnic and colleges sector was, until 1992, under the academic tutelage of the Council for National Academic Awardswhose primary function was to ensure that the degrees offered in polytechnics and colleges were equivalent to those in universities.

22. Some had more quality regulation than this to contend with. For example teacher trainers were frequently and rigorously inspected by Her Majesty's school inspectors.

23. In early 2000 a HUMANE (Heads of University Management and Administration Network in Europe) survey of the use of resource allocation tools in universities showed that 80 per cent of UK higher education institutions used resource allocation models in the distribution of their internal resources. The figure has almost certainly increased since then.

24. Such as those about major new initiatives or appointment of academic and other staff.

considerable independent income generating powers, and it is not uncommon for business schools, for example, which often have close links with wealthy outside interests to be able to negotiate specially favourable terms for themselves. It is often in the university's interests to do this because a successful business school can often bring considerable income into the university's general funds even if it is 'taxed' at a relatively low rate. Other faculties, such as the natural sciences may, in contrast, require heavy subsidies from elsewhere in the university but they may be considered worth paying because of the prestige associated with a successful Physics department for example.

A recent development is for many strategic decisions also to be devolved to faculties or 'schools'. Medical schools, business schools, engineering schools, law schools are often powerful enough and rich enough to be able to employ sufficient appropriate staff to take nearly all decisions, including the employment of academic staff, by themselves with no more than light oversight by the central management team to ensure that such matters as tax and employment law, and university policies with regard to equal opportunities are not being contravened. A very recent trend in university restructuring is to group many of the traditional arts and sciences departments and faculties into a 'school' to which similar decision making powers can be devolved.

Full devolution to constituent organisational units is possible only in universities with a very powerful institutional culture that overcomes the obvious fissipa rous tendencies inherent in such devolution. (Williams, 1993). One of the most successful English universities, Cambridge, which has for historical reasons always had a very diffused decision making structure is beginning to question whether the university's resources are used as efficiently as they ought to be. London University, which was also almost completely decentralised in its financial decision making, effectively split apart at the beginning of the 1990s and the remaining powers of the central university are vestigial. They would probably disappear altogether were it not for the fact that legally all the degrees awarded by the constituent schools and colleges of the university are London University degrees and only one of the constituent schools and colleges so far has the legal right to award them.

One problem, which financial devolution and the development of RAMs has highlighted, is that of over-head or indirect costs. It is, in part a technical accounting matter and in part a question of values related to fundamental ideas of why a university exists as an institution. As in any integrated organisation each of the production sub-units needs to cover its own direct costs, make a contribution to the common services of the institution as a whole –for example the student registry, the finance office, information services, and to contribute funds which can be used directly or indirectly for new developments. The traditional way of meeting such indirect costs, when the majority of funding came in the form of a single block grant from the government, was through 'top-slicing'. Broadly this means that the resources needed are top-sliced from the overall allocation before the remainder is allocated to the devolved cost centres. In a market oriented university this procedure has two major disadvantages, first that while the operational cost centres are subjected to rigorous financial discipline through the operation of the formulae there is perceived to be little such discipline for the central services, second that they are treated as free services by the operating departments; for example books and journals are requested from the library regardless of cost or likely level of use. The most widely debated issue of this type is the use of physical space in the university. If classrooms and staff offices are 'free' there is an understandable incentive for each cost centre to demand and hold on to as much space as possible. Claims about under-utilised space are one of the main complaints of external critics of the management of universities.

The most common successor to top-slicing is 'taxing', though it is rarely called that. A levy is imposed on all income earned by departments whether commercially or from central funding through the RAM. The simplest version is a standardised levy on all the income of each cost centre. This is little different from top-slicing in effect, but it does highlight another difficulty –different rates of usage of each service by different cost centres. A research group may claim that it makes little use of the student registry or undergraduate library while a predominantly teaching department in the humanities may question the need to pay for researchers to have access to each new development in information technology as soon as it comes along. An alternative is differential taxation, depending on the perceived intrinsic value to the university of any activity or its perceived ability to pay. Such differential taxation shades into charging for such services as library and computing. In London, for example colleges now buy tickets for students and staff whose work requires them to use the university central library. The central university careers services are funded in much the same way. There are few British universities that have not had fierce debates about such mattersnduring the past two decades, and many have had several versions of such tax/levy/user-charging models. Many of the routine activities now needed to operate teaching and research activities are now the subject of user charging procedures. This is one of several areas of management where new technology has helped to make marketisation work. Postage, telephones,

teaching and research consumables such as paper and floppy discs can be charged to the individual or group who use them instead of being seen as a free bureaucratically managed service.

As universities have come more and more to depend on diverse income generating activities to supplement and sometimes replace core income from government the RAM has evolved into not only a set of resource allocation formulae, but a strategic management tool. It is both a taxing and a spending instrument. But in addition to the technical accounting issues considered in the previous paragraphs this raises questions that go right to the heart of the nature of a university as an institution. Should 'taxes' be proportional or progressive tax? Should those departments able to earn large amounts of commercial income be expected to pay higher taxes than those with fewer opportunities to do so? How much should the former be expected to subsidise the latter? Should different kinds of income generating activity be taxed to the same extent on in the same way? Some are very close to the core 'mission' of the university. For example fees from overseas students. These may need to cover their full costs in terms of all the university facilities used by such students. But should they go beyond this? What contributions should they make to the research of the university's academic staff? If it is the case, as some claim, that research and teaching are completely symbiotic the same proportion of their fees should be used to contribute to the research programme as the proportion of the total income of the university. But is this reasonable or plausible?

Other income generating activities, some consultancy activities for example, or leasing out of physical facilities, may be seen to contribute little directly to the core mission of the institution. They may be worth doing only if they generate a surplus that can be used to support the mainstream academic activities. In these circumstances it is reasonable for a RAM to start from the position that the university as a whole should retain all financial surpluses. However, this immediately raises the problem of incentives, especially for academic staff. Why make an effort to generate such income if there are no benefits to the individual or to the group to which s/he feels primary loyalty? One solution is to establish semi-autonomous university companies and consultancy units to undertake such work and transfer their 'profits' to the university. However, this disguises the incentives issue rather than solves it. There are numerous examples of 'spin-off' companies that have split off entirely from the university when their managers believe that the risks of failure are low enough to make it worthwhile retaining all the surpluses for the company rather than sharing them with the university.

Intellectual property rights to discoveries made by those working for a university are probably the most controversial issue of all in this area. When a scientific discovery is poised to generate significant income there are usually at least three claimants it –the individual researchers who made the discovery, the university that has employed them when they were making it and the commercial company or companies that develop it from academic research to the product for sale. Traditionally in the UK the university has been squeezed between the first and third of these and many important discoveries have generated little or no income for the university[25] where the discovery was made. However, a very important dimension of the marketisation of the university has become its assertion of its rights to a significant share income generated from the exploitation of the commercial rights to any intellectual property generated by its members. Cambridge University probably the most prolific generator of commercially exploitable intellectual property in the United Kingdom has been engaged in a fierce internal debate over this issue throughout 2003.[26]

The emergence of formula funding of universities by government and of RAMs for resource allocation within them are clearly indications of a very market oriented approach to the funding od universities. However it is very far from the widely quoted idea of a free market. Both externally and internally the operation of the market is very highly regulated, through a range of auditing and monitoring procedures and through a large number of regulatory procedures which control staff salaries, admission of students and, most controversially at the time this is being written tuition fees charged to undergraduate students.

THE STUDENT FEES ISSUE

Until the 1940s universities received about one-third of their income from student fees (Robbins 1963). From then onwards the level of fees was reduced and an increasing proportion of them was paid from public funds for reasons of social equity. By 1980 universities received less than 5 per cent of

25. In some ways this issue is the sharpest example of the transition from a traditional view of the social role of the university and market economy view. Traditionally academic staff have competed to establish priority in the publication of the results of their research. That has determined their standing amongst their peers, their academic careers and eligibility for major scientific awards and prizes. Now a new consideration has appeared in many areas of scientific research. Results are not published until commercially exploitable aspects of them have been protected by patents.

26. An interesting smaller scale example where practices differ between, and indeed within, universities is the copyright and right to royalties on books written while doing research in the university. While it is usual for authors to be allowed to retain royalties on books they have written, this practice is not universal and research staff who are not on permanent contracts for example sometimes find that their royalties belong to the research centre that employed them.

teaching income in the form of student fees and for all UK students this was paid from public funds as part of the system of financial support for students. This financial support was 'means-tested that is the amount a student received depended on his or her declared family income.[27] At the time some observers considered it anomalous that universities received public funds for the same activity through two different routes and recommended that fees should be consolidated into the general grant from government to universities and colleges.

However, the existence of two funding streams was critical in 1989 when the government adopted a policy of low cost expansion of student numbers. Fees were raised to levels that covered about a quarter of the teaching costs of universities but they were still to be paid out of public funds, so there was no opposition from students or their families. Universities were allowed to retain all the income they received from any student they recruited on a fees only basis and the government undertook to meet the costs. The fees became in effect virtual student vouchers, which appeared to have covered the marginal costs of teaching additional students in many universities. The effect of any additional students recruited was, however, taken into account in the formula determining the following year's core grant to universities[28] Recruiting 'fees only' students drove down the average cost per student so any university that did not increase its student numbers seriously risked losing money. The consequence was an explosive expansion for 6 years as universities competed with each other to attract as many students as possible. All universities, even the most elite, were drawn into this scramble to some extent, although some chose to supplement their income in other ways, for example by expanding the proportion of foreign students or postgraduate and research students.[29]

By 1995 the explosive expansion of student numbers had proceeded to such an extent that, for reasons indicated in section ?? above, the government called an abrupt halt to it and several universities and colleges that had based their financial plans on continued expansion of UK student numbers (borrowing money to build residences for them, for example) found themselves in serious financial trouble.

A new Labour government replaced the Conservatives in 1997 but, apart from relaxing the ceiling on student numbers and exhorting universities and colleges to further rapid expansion of students from social groups hitherto underrepresented, most of its policies can be seen as further development of initiatives that were encouraged by the 1988 and 1992 Acts. However, the 1998 Teaching and Higher Education Act took the market approach one step further by requiring the fees, which had previously been paid out of public funds, to be paid by the students themselves. This shifted about 25 per cent of the cost of teaching on to students and their families.[30] The Act allowed universities to charge less than this tuition fee but not to charge more.

This was also seen by many universities as a further move to tighten government control of the higher education market. Until 1998 universities had been able to charge any tuition fees they chose to impose, though in practice no use was made of this power: all universities charged their undergraduate students the fees that the government was willing to reimburse. As a result of the 1998 Act Universities are no longer permitted to decide the fees they charge their EU students on first-degree courses if they wish to continue receiving public funds. Fees are not related to the cost of courses or to the anticipated financial benefits of studying different subjects or at different institutions.[31] Fees of students from families with low incomes are subsidised. The aim is to transfer some of the burden of further expansion on to relatively affluent households, without further increasing inequality in higher education provision.

In February 2003 the government announced its intention to permit universities to charge tuition fees of up to three times their present level but to allow students to borrow the money necessary to pay their fees and to repay them after graduation (at zero real rate of interest) out of subsequent income once their earnings rise above average levels (DfES 2003). At the time of writing, November 2003 the Queens Speech (the government policy state of its intentions during the year 2003/4 has announced

27. Until 1976 the means testing arrangements were such that students from very wealthy families were required to pay fees themselves that covered about 5% of their teaching costs. In that year, in a fit of misconceived equity the Labour government removed this requirement so that no UK student had to pay any fees for first-degree education. The whole issue of financial support for students can be seen as an aspect of the marketisation debate but in this paper it is considered only to the extent that it impinges on the issue of the income earned by universities and colleges.

28. If, for example the average public expenditure per student in year x was 100 and in year x+1 it fell to 98 as a result of some universities recruiting 'fees only' students, that figure was used as the government's baseline figure for fund allocation to universities in the latter year. The effect was that a university which did not increase its student numbers risked losing cash year by year.

29. For example at the London School of Economics 65% of students now come from outside the United Kingdom and at Imperial College London ?? % of the students are doing higher degrees of some sort (or the Oxbridge figure).

30. The rationale for this decision, which had been much debated for at least five years, (by economists for much longer) and recommended in principle, though not in the precise form the government adopted, by the National Committee of Enquiry into Higher Education (the Dearing Committee) was the pressing need of many universities for more money and the government's perception of the political impossibility of raising the taxes necessary to provide it, and the acceptance of the evidence that a very high proportion of the beneficiaries from higher education were students from relatively affluent families, most of whom were able to use their university qualifications to earn well above average salaries. Students from poorer families continued to have fees paid from public funds.

31. See Annexe 1.

the government's intention of passing a Law in the current session of Parliament to implement these proposals. This has raised enormous controversy in the popular press and the issue has become a political football. At one end of the spectrum many universities are claiming that that a fee of £3,000 a year is insufficient to meet their financial needs or to allow a real market for undergraduate students. This attitude is broadly supported by the most popular universities, which are likely to have little difficulty in filling all their available places even at very much higher fee levels. At the other extreme are those who believe that any fees for first-degree studies are unethical and discriminate against students from less affluent backgrounds. This includes many members of the Government (Labour) Party. They are supported by the Liberal-Democrat centrist party which has traditionally opposed all charges for education and has a policy of raising taxation to meet necessary costs.[32] The debate was given a further twist in the summer of 2003 when the main opposition Conservative Party announced that it too would oppose the imposition of market-based undergraduate fees when it is debated in Parliament in the Autumn of 2003. The Conservatives have announced that they would meet any additional public expenditure costs by cutting back on student numbers in higher education and channelling more students into the less expensive and more vocational Further Education sector. At the time of writing the outcome is very uncertain and this appears to be another higher education financial issue that will be decided on extraneous political issues, such as the halo effect of the controversy about the Iraq war rather than a reasoned debate about the benefits and costs of charging different levels of fees for first-degree courses. The personality of the Secretary for State for Education may prove to be the deciding factor. He is very strongly staking his personal reputation on the equity of allowing universities to charge higher fees to wealthy and potentially wealthy students.

Another dimension of the debate is that the proposal is accompanied by a further tightening up of government regulation of the higher education market. In order to reduce the likelihood of students from poor families being excluded from attendance at the most popular universities the government is to appoint an 'access regulator' who will need to be assured that any university charging more than minimum fees to its undergraduate students, has measures in operation to increase participation from social groups without a strong tradition of participation in higher education.

However, despite what some observers see as unwarranted government interference in the free market, UK universities remain in many respects remarkably independent. They are able to take most of their own commercial and academic decisions. They can set their own fees for all but their bachelors degree courses. No formal qualifications are needed for entry to a higher education course. Each university takes its own decisions about which students to admit and is constrained only by its market image and a concern to ensure that students who are admitted have a good probability of completing their courses without too much trouble and within a reasonable period of time.

THE ENGLISH 'MODEL' OF MARKET ORIENTED HIGHER EDUCATION AND ITS CURRENT DILEMMAS

The term *mass* higher education hints at the deskilled production line first celebrated in Adam Smith's pin factory. However, despite criticism of commodification, and McDonaldisation (e.g Hayes and Wynyard 2002) autonomous universities competing in a mass market may be the most effective way of avoiding standardised production line provision of academic services in the provision of mass higher education. The motor car industry has come a long way in both quality and variety since Henry Ford's customers were able to have any colour so long as it was black and never has there been more variety or better quality to choose from, for those who like to eat in gourmet restaurants. In attempting to evaluate the effects of marketisation on British higher education it is important to distinguish the effects of massification, financial stringency and marketisation and the interactions between them.

In brief the effects have been:

1. very much greater efficiency as measured by most quantitative indicators;
2. much expanded and less distinct boundaries of both 'the university' and higher education;
3. diversification with standardisation of processes and outcomes within similar categories of activity;
4. radical changes in management arrangements within higher education institutions;
5. changes in the social and economic position of academic staff.

EFFICIENCY

Unambiguous measures of efficiency in higher education are beset with difficulty arising from difficulties of defining output and quality. Any quantitative measures are, therefore, at best indicators of changes that appear to have occurred in relation

32. In Scotland, where the Liberal Democrats formed part of the government coalition, fees were abolished in 2000, though a graduate endowment scheme, in which graduates are expected to reimburse the higher education sector as a whole after graduation, has much the same effect from the point of view of individuals.

to specific policy or management objectives. With this important proviso in mind there are many indicators that the unit of output per unit of input has increased considerably, at least in terms of overt public policy objectives, during the past 15 years.

As Annexe 1 shows the percentage of young people entering higher education in England rose from less than 15 per cent in 1980 to well over 30 per cent in 2000. The White Paper of 2003 claims the proportion is now 43 per cent. In Scotland and Northern Ireland the figures were higher in both years. Over the same period public expenditure per student fell by nearly 35 per cent in real terms. The percentage of GDP devoted to higher education institutions fell from ?? per cent to ?? per cent between 19?? and 200?. These did not, however, lead to a discernible significant losses of quality. Course completion rates remain high, despite the creation of a new group of universities in 1992 and the UK now has the highest age related graduation rate in the OECD area. There is no quantitative evidence that the quality of these graduates has fallen. Recent figures suggest that the economic benefits of graduation remain high as Annexe 4 shows. At the same time research output remains high. The publications rate of academics in the United Kingdom and the citation rates of these publications in recognised academic journals remains high. Quantitative indicators leave little doubt, therefore, that the changes have been successful.

However, there are questions about the 'quality' of degrees. Although it is not often disputed that the standards achieved by the best graduates are at least as high as they have always been, there are concerns about the range of performance between the top and bottom graduates: between those who are immediately able to go on to successfully complete doctoral programmes for example, and those who just mange to scrape a pass at bachelors level. These are very difficult questions to answer especially since there are issues both of ranges of performance within single subjects and disciplines and between disciplines. But further work is clearly needed before we can confidently assert that the regulated market has improved efficiency without detrimental effects on quality.

BOUNDARIES OF HIGHER EDUCATION

The boundaries of higher education have expanded along three dimensions.

a. The creation of new universities out of former polytechnics and colleges took place within the boundaries of what was conventionally know as higher education but simultaneously there has been a substantial expansion of higher education courses, including many two-year programmes, in lower level further education colleges.
b. New subjects have entered the higher education curriculum, professional areas such as nursing and tourism and quasi-professional areas such as media studies.
c. The traditional core missions of teaching and research have been supplemented by a wide range of activities that are in part similar to the longstanding public service function of United States universities but there can be little doubt that the massive expansion of such work in British universities in the past two decades has been primarily market driven. A process whereby an activity, for example links with local industry, is embarked on, initially as a way of generating income through, research, consultancy or contract teaching has gradually become mainstream, partly because of the need to offer career prospects for the staff who engage in it, so that by the mid-1990s the higher education funding councils recognised such work and introduced a new stream of government to underpin it.[33]

DIVERSIFICATION, STANDARDISATION AND EQUITY

British higher education is not more standardised overall than it was in the 1970s. Twenty years ago I wrote 'In universities students are offered effectively a three or four years honours degree or nothing' (Williams & Blackstone 1983). A similar claim could not be made today. Yet the effects of the quality assurance movement has been to ensure that within each category of higher education activity the experience of students is under pressure to converge regardless of where they are studying the subject. Subject specific curriculum development groups are attempting to ensure that what is taught on undergraduate history courses is equivalent in all universities and the pressure is even greater where professional qualifications are involved. Teacher training courses, for example, have been virtually standardised across the whole of England.

Standardised products often appear in a mass market because customers find them convenient. A mid-range family saloon meets a certain range of expectation with respect to engine power, safety, comfort, and a franchised chain of restaurants can be relied on to meet known quality standards. The more complex the product the more valuable to many consumers is the knowledge that there are guaranteed standards. A measure of standardisation in higher education is particularly useful to students without a family tradition of going to university or

33. At the national macro-economic level this stream of funding has been justified on the grounds that it facilitates technology transfer from the university laboratory to the production line, but there is little convincing evince that many such activities actually do so.

attendance at a secondary school with close links to several universities. The transaction costs of acquiring information about an individualised product are otherwise too high for many students.

In most markets there is a range of standards between which customers can choose. Usually there is a trade-off between quality and price. In the United Kingdom, at least rhetorically, equity in higher education has tended to mean not that students should be aware of the implications of attendance at different universities but that they should have a broadly similar experience whichever higher education institution they attend. Many countries continue to have at least two explicit higher education product ranges. In the UK the binary system was abandoned and a unified system created because it was believed that two explicit product ranges conflicted with principles of equity if access to the preferred model was restricted.

UK higher education policies in the 1990s have attempted to find solutions to the problem of coexistence of diversity and equity mainly through diversity within universities. The competitive financial mechanisms promoted by government have had the consequence of encouraging most universities to try to offer courses and research across a very wide range of subjects and types of student, partly because some activities –research for example– are perceived as being potentially more rewarding to the university and its staff, than others.

Many proposals for squaring the diversity-equity circle have been made in the past ten years and several were aired in the recent government White Paper (DfES 2003). One is for students to be well informed about the implications of particular choices and to pay, at least proportionately, for what they get. Another is for universities to cross subsidise some students, or some activities, at the expense of others.[34] Some universities may be able to succeed in one market niche, others somewhere else. Some may attempt to generate a financial surplus through ventures that are not part of the core university mission but can be used to subsidise it. Thus students at a university that makes profits from the conference trade, for example, are able to benefit from a more expensive range of services.

However, as soon as either of these happens there is an inherent conflict between diversity and equity. Diversity and differentiation must mean that the missions and clientele of courses differ. Whatever the intentions, some students will get better financial deals than others. If the prices to students of all courses are required to be equal some will receive better value for money than others. If prices (tuition fees) are allowed to differ some will not be able to afford the higher priced options. If the government decides to provide extra subsidy to students in institutions that do not generate additional income this is a deterrent to enterprise and thus a net loss of income to the sector as a whole.

CHANGES IN MANAGEMENT

The explicit 'marketisation' of British higher education was largely a series of responses to immediate crises. Even the 'National Enquiry into the Future of Higher Education' (Dearing, 1997) was mainly concerned with finding ways of dealing with immediate crises of funding and quality assurance. Counter-factual history is not a very useful exercise but it is of some interest to reflect on what might have happened if universities that not been autonomous institutions at that time of the 1981 cuts and subsequently and had depended on prescribed line item budgets from government.

What is not hypothetical is that when mass higher education and the global growth of belief in markets as efficient ways of allocating resources and promoting economic advance led to the growth of the new public management concept of 'steering from a distance' by government, British universities were in a uniquely privileged position to take advantage of the new circumstances. Unfortunately for them, however, whereas in many other countries steering from a distance involved loosening rigid state control mechanisms, in the UK the emphasis was on the strengthening of government instruments to steer the system. Among other measures this has involved attempts to strengthen the non-academic control of universities and colleges so as to reduce their ability to serve what the government has seen as academic self-interest.

Many British universities are now very large commercial enterprises and need, at least in part, to be run as such. Business acumen is now at least as important as academic expertise for their top managers. The changes that have been experienced over the past twenty years are obviously not unique to the United Kingdom. They are part of a global trend of which the most dramatic manifestation was the downfall of the centrally planned economies of Eastern Europe. However, the British tradition of university autonomy elicited a particular kind of response when universities were subjected to severe financial reductions in the early 1980s. There have, for example, virtually no full scale privatisation in British higher education because the universities have already had the legal status of private organisations, so any successful initiative by a private organisation can immediately be taken up by an existing university which has the advantages of existing market visibility.

34. For example it is expected that the requirements of the 'access regulator' will be met by offering some kind of means tested bursaries for students from less wealthy families. The cost of these will have to come either directly or indirectly from the students who are paying the higher fees.

In many ways, therefore, British higher education was a soft target for governments wishing to control public expenditure. The funding of universities was already partly quasi-market in form, in that financially autonomous universities received public funds and spent them in accordance with their own priorities. One problem in the eyes of governments since 1980, has been that these priorities have not coincided with those that the government considered to be the interests of the community as a whole.

It gave rise to an interest in the 'the principal-agent problem'. How does the 'principal' or supplier of resources ensure that the 'agent' acts in a way that the principal requires? How do managers or leaders ensure that the individuals and organisations for which they are responsible behave in ways that the managers require? The answer is in one of five ways: coercion, administrative or legal authority, charismatic persuasion, professional expertise or the provision of incentives. For a wide variety of technical, economic and ideological reasons, related to organisational size, the tendency of middle level bureaucrats and professionals to act in their own self interests, and belief in individualistic democracy as the ultimate source of authority in society, there has been a growing tendency to treat the last of these, the provision of incentives, as the most efficient way for principals to 'persuade' agents to achieve outcomes desired by the principals.

British universities have begun to experience the growth of what might be called entrepreneurial management. The rewards of financial success for or within the university have risen and the penalties of failure have become more severe. One indicator is the widening salary gap between those at the top of academic hierarchies and those at the base. Vicechancellors' salaries have risen very much more rapidly than average academic salaries in the last ten years. There has been a huge increase in part time, short-term research and teaching staff, many of whom have poor career prospects. Unsurprisingly many such employees are women.

Underpinning the success of new public management were the dramatic changes brought about by the rapid developments of information technology. These had several effects on British higher education.

One is the acceleration of changes that have been happening for the past three hundred years –the speeding up of global communications. Information about successful (and unsuccessful) innovations can be round the world in a matter of minutes. Evaluations of the causes of success or failure are usually not far behind. Information and knowledge are as susceptible to such developments as manual work was to the harnessing of steam, petrogas and electrical energy in earlier centuries. This is especially relevant to higher education, which is one of the leading information industries. The worldwide use of the English language has given British universities particular opportunities and challenges in this area. It accentuates the need for them to respond rapidly changing demands and they were early adopters of advanced electronic information systems.

A second consequence of the rapid changes in information technology is simply that both collegial and bureaucratic management arrangements are too slow to keep pace with the pace of change. The Soviet economy in the l970s and 1980s fell back further and further in comparison with those that were able to respond quickly to technological change. This is particularly relevant to higher education with its long production period and long-term effects throughout the lifetimes of its participants. Outdated universities can continue to do damage for many decades. It was the shock of the 1981 cuts and the realisation that they were not going to be reversed after the 1984 election that accelerated the growth of modern management information systems in most universities. No longer was it possible for university managers to buy themselves out of difficulties when problems arose –easing out unsuccessful appointees, building or renting additional space when in other parts of the university lecture rooms were underutilised. It was essential to foresee such crises rather than simply responding to them when they arose. The new information technology enabled senior managers to keep their fingers on the pulse of the universities while devolving most of the day to day decisions to those who were directly involved. Although this applied to nearly all areas of business activity it is particularly powerful in enterprises like universities where much of the expertise necessary for the successful operation of the organisation is near the base of the organisational hierarchy.

In practice almost certainly, the most important contribution as a proximate cause of the development of a tightly regulated market in British higher education, is the implications of information technology for management information systems. The development of high powered systems for the creation, transmission, storage and retrieval of management information has meant that governments and senior university managers have been able to avoid detailed administrative controls, while at the same time increasing their capacity to steer systems and institutions in directions indicated by their own policy priorities. The concept of controlling a system or organisation by the manipulation of management information is the main way in complex systems like higher education can be "steered from a distance". An essential feature of effective markets is the unimpeded flow of information and this is equally important to those who seek to regulate them. The sophisticated RAMs referred to in this article, which are at the heart of successful universities responses to financial

stringency, government steering from a distance and producing usable financial surpluses from a diverse variety of income sources, would have been quite impossible without sophisticated computerised information systems.

THE ACADEMIC PROFESSION

It is a widespread belief among university teachers in the United Kingdom that the efficiency improvements of the past two decades have been achieved at the expense of the academic staff. Indicators that support these claims are the increased workloads resulting from larger numbers of students per teacher, regular appraisals of teaching and research, declining relative rates of remuneration and less security of employment. Claims of stress are widespread. The consumerist view of higher education is that the aim of higher education is not to secure attractive lifestyles for its employees and certainly it was one of the claims of government in the 1980s that many of the resources devoted to higher education were used more to meet the demands of academic staff than to improve the education of students. However, at some point reductions in the net benefits of any profession affects rates of entry into it. This effect can be both quantitative and qualitative. Quantitatively it may become impossible to fill job vacancies. There is evidence that this point has already been reach in some specialist areas, such as Economics, Electronic Engineering, and in professional areas such as Law and Accountancy where the market demands of other employers are very high.

But even more of a threat to higher education, partly because it is more difficult to measure are the quality shortages. If a sufficient number from the best of each generation of graduates do not become researchers and teachers in higher education there is a serious danger of slow long term quality decline. The threat is insidious because its effects are slow and often not objectively measurable, at least not from one year to the next. It is widely believed that such changes are occurring at least in some specialisms.

MAKING SENSE OF THE UK "MODEL" OF HIGHER EDUCATION MARKETISATION

This paper has outlined the unfolding of a story with five interwoven strands: financial stringency, organisational responses, expansion, quality control and information technology. Together they have brought about the phenomenon that is often described as marketisation, though other neologisms are often used: massification, commodification, McDonaldisation for example. It is my claim that though these five strands are woven together it is possible to discern a clear set of causal connections if the text is read carefully and the temptation to put higher education always at the centre of the picture is resisted. It is also necessary to bear in mind that any unfolding narrative, which is dynamic by definition, must start somewhere even though there are inevitably antecedents.

A synopsis of the story told in this paper is that the events started in 1979 with the election of a Conservative government pledged to overcome inflation by reducing public expenditure. Each government department was required to make savings specified in an overall macroeconomic target, immediately, and over the following five years. A convenient immediate target was the subsidy paid to higher education institutions on account of their foreign students about which there had previously been concern because of their rapid growth, in part promoted by universities to make good their shortfalls in home student recruitment in the 1970s which had fallen short of targets from the early 1970s onwards. These shortfalls also made higher education a prime target by the Department of Education and Science for a major part of its contribution to the required public expenditure savings.

As financially independent institutions the immediate university responses were mixed. Some assumed that the cuts were a once for all surgical operation and recovery of the long established *status quo ante* would be rapid. Others adapted to the new situation very quickly and realised that the golden post war age of government generosity to the universities was over and that new sources of finance had to be found. They set about actively recruiting students from overseas, particularly the boom middle eastern and Asian countries and exploring other ways they could turn their knowledge and skills into income streams for the university.

In 1984, partly as a result of success in the Falklands War the Conservative government was re-elected with an increased majority and it became widely realised that the policy of financial stringency across the public sector would be a permanent feature of the UK political scene. All universities now realised that income generation from other sources was essential if they were to survive. Consensual collegial management structures were no longer able to perform effectively in the new climate. Committees were pruned, finance offices became larger and more powerful, central management teams were established, primitive computerised resource allocation models were developed. Clearly universities were proving capable of looking after themselves financially.

Inevitably in a narrative that depended on decisions by many independent organisations various problems developed along the way. Two were important enough to have had an important role in the next big event in the story. Many universities were unable to make the staff reductions they wished

because nearly all their academic staff had lifetime tenure. The government was persuaded to provide additional funds to permit this flexibility. The other was a suspicion that some of the income generating activities were being subsidised out of public funds in that the universities were not charging for the indirect costs of these activities. The 1988 Education Reform Act took for granted the ability of universities' financial management to adapt to financial diversification but in order to make them more effective tenure was abolished and a funding mechanism was introduced in which the government effectively bought teaching and research services from the universities, rather than subsidising them. The costs of providing teaching and research in each university was carefully monitored. The universities were encouraged to expand their new found enthusiasm for raising cash from sources other than government.

Meanwhile the OECD had started to produce reliable international comparisons of higher education performance and two headline figures soon became widely know politically. The United Kingdom had very low participation rates and high course completion rates compared with most other wealthy OECD countries and public expenditure was very high –a typical elitist higher education system underpinned by state funding.

By the mid 1990s the rate of expansion was causing total expenditure on higher education to rise rapidly despite large falls in spending per student. The Treasury insisted on a freeze on further expansion and many institutions which had borrowed money for buildings and equipment in the expectation that growth would continue found themselves in severe financial difficulty.[35]

The debate about whether part of the cost should be borne by graduates who were on average receiving considerable financial benefits from higher education began in earnest. This threatened to become a major issue in the 1997 election and a National Committee of Enquiry into Higher Education was set up with a timetable that meant it would not report till after the election. The Dearing Committee's report appeared in 1997 a few weeks after the new Labour government had been elected with a large parliamentary majority. The Dearing Committee recommended that the tuition fee component of teaching costs should be paid by graduates in the form of income contingent repayment of loans available to them as students. This was not, however, acceptable to the government in part because it was thought that wealthier families ought to be able to pay the fees for their children immediately and partly because a loan scheme would not make additional money available to the universities for several years.

Four main higher education issues concerned the new government that was re-elected in 2002.

- The emergence of different approaches in Scotland and Wales where the voting system put in place had led to a coalition style of government began to influence thinking in England.
- In world where acquisition and transfer of advanced knowledge was seen as essential if a country was to remain wealthy it was considered essential to increase spending on research and to ensure that it was spent effectively on both the creation and the transfer of knowledge.
- Lifelong learning was essential if individuals were to keep pace with the rapid changes in knowledge that scientific discoveries were rendering inevitable;
- The benefits of higher education needed to be spread to all segments of the population.

The White Paper that was published at the beginning of 2003 proposed further concentration of research funding, financial incentives to higher education institutions to recruit students from schools where the tradition of higher education entry is not strongly entrenched, increased contributions to the long term costs by graduates by permitting universities to charge considerably higher fees and for these to be paid out of the subsequently enhanced income of graduates. The debate about these proposals is currently under way and some of them have already been strongly criticised by a parliamentary committee. They will be debated in Parliament in November and the outcomes are far from certain. Political alliances are forming which are likely to depend as much on attitudes to the government formed as a reaction to the Iraq war as on their intrinsic merit.

CONCLUDING REMARK

Although the move towards market forms of organisation began early in the United Kingdom it is important to remember in the context of the history of British universities how recent it is. In 1989 the *Higher Education Quarterly* opened a themed issue on marketing higher education with the thought that: 'This issue of the *Quarterly* will probably shock some readers. The idea of marketing a university is about as far from Newman and von Humboldt, or, for that matter Bloom and Bok, as it is possible to get.'

Undoubtedly ideology underpinned the changes described in this paper, both their formulation and their implementation. 'Changing the culture' was the watchword of many senior university managers throughout the 1990s. However, in the United

35. Another non-education matter that is of prime importance for a financially autonomous university is the interest it must pay on borrowed money and this depends in part on the stae of the national economy and the institution's own credit rating (See Standard and Poors 2003).

Kingdom it was primarily an ideology that had its roots outside higher education and it was tempered by political necessities and opportunities. The initial driver was scepticism about the efficiency of centrally provided public services and a growing unwillingness, expressed through the adversarial political process, to pay taxes for them. In such a situation the market becomes an attractive alternative way of providing a very wide range of services. Universities, which had always been legally and financially autonomous institutions, protected by a very strong belief that this is an essential protection of intellectual freedom, were easy targets for public expenditure cuts and pressures to find supplementary and alternative sources of finance. The rest of the story is essentially one of university responses and government reactions to these responses.

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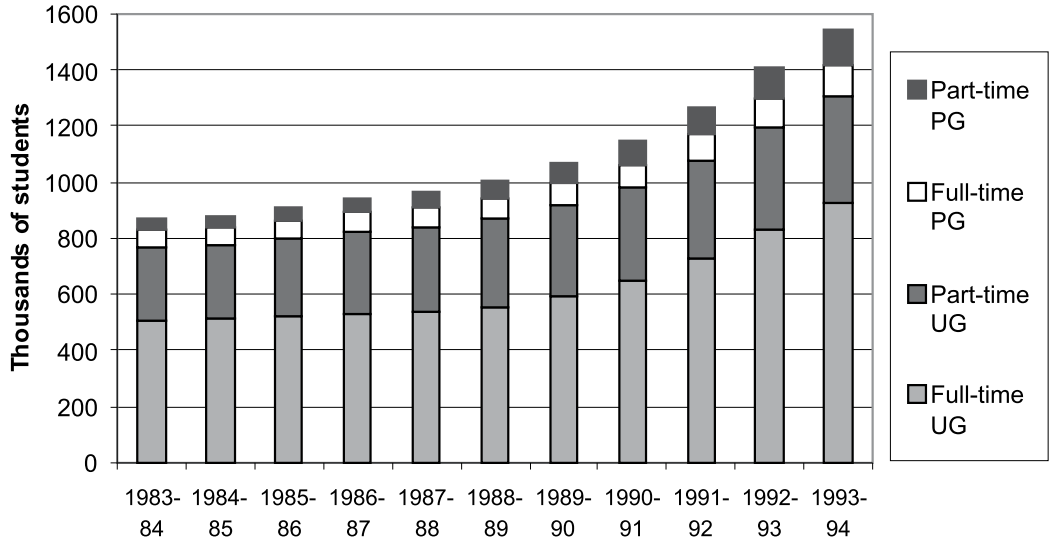
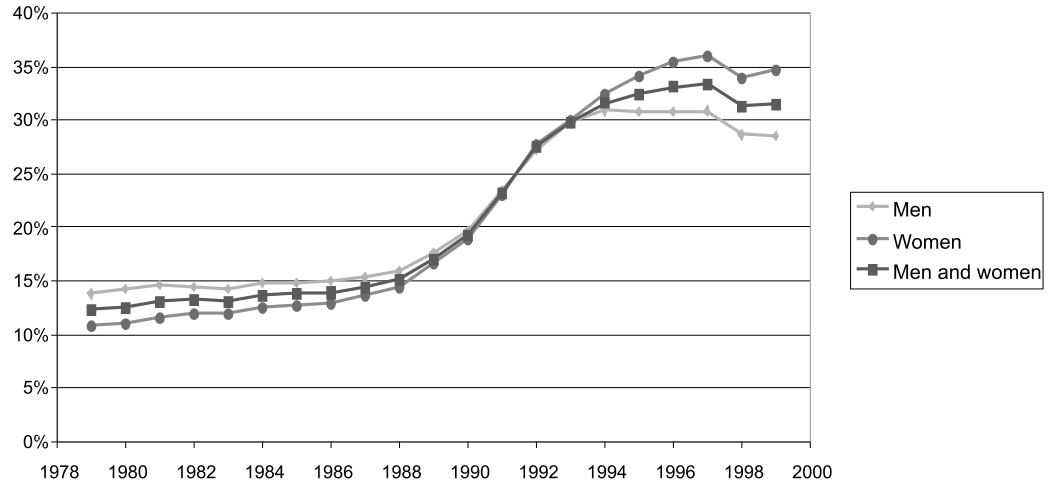
ANEXO

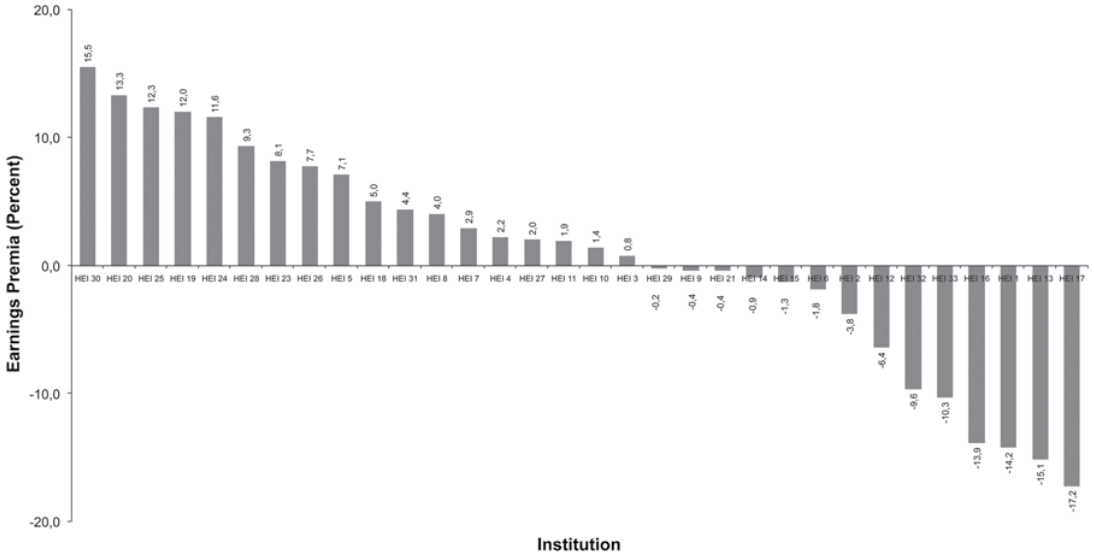
Number of students by level of course and mode of study



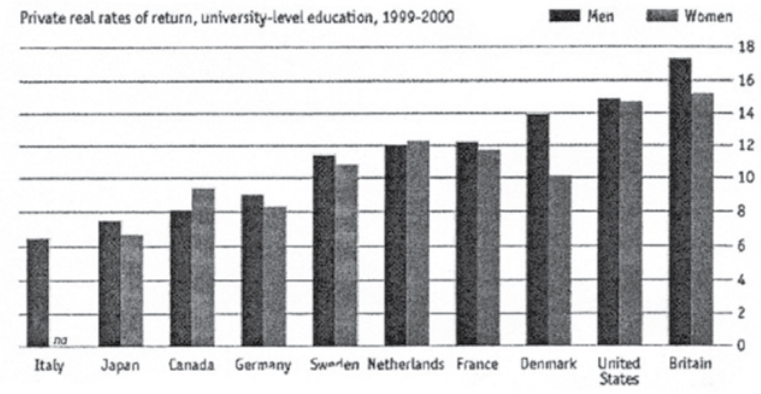
Age Participation Index (API) by gender (1979-99)



Earnings Premia Associated with Different HEIs 1995



Returns to education



Source: Blondal et al (2002).

RAE ratings converted into funding weights for each assessment. 2002 RAE rating

1	0
2	0
3b	0
3a	0
4	1
5	2.793
5*	3.357

The three subject cost weights are:

High cost laboratory & clinical subjects	1.6
Intermediate cost subjects	1.3
Other subjects	1.0

Source: *How the HEFCE allocates its funds 2003* Higher Education Funding Council for England (2003).