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The British higher education funding debate: the perils of 'talking economics'

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This article examines current debates surrounding British higher education funding from a political economy perspective, drawing on 'positive' and 'institutionalist' political economy. Adopting the lens of political economy enables a critical assessment of the use of terms drawn from economics by many higher education decision-makers. Current discussions embody particular assumptions about the nature of producers and consumers in higher education, the relationship between supply and demand, and the role of information in the higher education 'market'. They also frequently fail to acknowledge the active rather than passive role of higher education institutions in shaping policy discussions surrounding higher education funding.

Keywords: higher education; political economy; marketisation; competition

Introduction

This article examines the issue of British higher education funding from a political economy perspective. Although a political economy perspective has been applied to examine the role of higher education in the wider economy (Slaughter 2001) and socio-economy (Carnoy 1985), and the rationale for public funding of universities (Lowry 2007), it has less frequently been used to interrogate developments in relation to the specifics of university funding, such as the balance between private and public support. This is despite the fact that an increasing number of decision-makers within British higher education have adopted language drawn from economics in their interventions in the current British funding debate.

Hence, there appears an increasing willingness to describe the higher education sector as a 'market', as well as international higher education and postgraduate education which have long been described as such. Faced with funding challenges, many higher education institutions (HEIs) have been attempting in recent years to 'respond… to the market and attempt… to reposition [themselves]' in relation to it, as Professor Steve Smith suggested was necessary at his institution, the University of Exeter. Such a 'response' has led to the closure of specific departments (e.g., chemistry and music at Exeter), and/or more generalised cuts across the board (as at King's College London, where a 10% reduction in costs has been achieved (Hurst 2010).

A government-commissioned, October 2010 report on the future of student support in England, the 'Browne Review', was largely consistent with existing descriptions of the English higher education system as a 'market', and indeed, proposed a number of measures to increase competition between HEIs for student enrolments. The Review proposed the abolition of the British government's block grant for teaching non-STEM subjects to English

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HEIs, and its replacement with a system whereby students paid fees at levels varying between HEIs, thus allegedly placing 'choice… in the hands of the student' (Browne 2010, 3). The Review explicitly aimed at the consolidation of the 'market' within English higher education by proposing, for example, that a 'Market Transition Fund' be created to support HEIs at risk of financial collapse due to insufficient student demand (Browne 2010, 50). The majority of the Browne Review's recommendations have been accepted by the UK Government, although tuition fees will initially be capped at £9000 per annum (with universities expected to charge between £6000–£9000 per annum, up from the current £3290).

This article first considers these developments within the university funding debate from what could be described as a 'positive political economy' perspective. Such a perspective uses approaches drawn from economics to explain actors' behaviour. In particular, it counsels a focus on how individuals make decisions as rational actors, often within particular sets of constraints. This approach draws on work from what has been described as the 'Chicago school' of political economists, amongst others. The paper also considers university funding from the perspective of what could be described as an 'institutionalist' or 'new political economy' approach, examining how organisations and institutions interrelate in processes of economic and political decision-making. This branch of political economy follows on from the work of Karl Polanyi (2001), Susan Strange (2004) and others concerning the creation, development and shaping of markets.[1]

It is fruitful to examine British higher education through the lens of political economy. Higher education has, in Britain and many other nations, traditionally been subject to extensive government control, to the degree that Tapper has described it as Britain's 'last nationalised industry' (2005, 200). The sector has become an increasingly important element of the national economy and viewed as of strategic trade importance. It is also particularly propitious to examine debates around British higher education funding now, given that significant changes have been proposed to funding mechanisms, following the election of a new British government committed to substantially reducing public expenditure (including in the realm of higher education) and the report of the Browne Review mentioned above.

Following the Browne Review's recommendations on student support arrangements, a significantly greater financial burden will be placed on British students qua 'consumers' of British higher education in the future, with tuition fees set to either almost triple or almost double, depending on the HEI concerned and any decisions it may make concerning fee-setting. In addition to increased fees, students will also be subject to higher interest on student loans, as initially counseled by the Russell Group of elite British universities (Williams 2010) and now proposed by the UK government.

This article attempts to place the debate amongst higher education decision-makers within a political economy context. It considers in detail the implications of the use of economic language by higher education decision-makers. In particular, it considers the implications of basing policy on the assumption that the sector can be viewed as constituted by 'consumers' and 'producers' within a higher education 'market', by examining the assumptions embodied within this position, both concerning the nature of this 'market' but also the role of HEIs in 'market' creation, consolidation and shaping. The article does not adopt any normative position on developments, but instead attempts to consider how they can be analysed adopting the analytical frameworks of positive and institutionalist political economy. It therefore examines in detail what some have described as 'neoliberalism' – both the 'ideology' of promoting marketisation but also the process itself of the spread of 'forms and pathways of market-led regulatory restructuring across, places, territories and [spatial] scales' (Brenner, Peck, and Theodore 2010, 183; see also Bourdieu 1998), and considers how these developments might be understood from a political economy perspective. The often 'chaotic' and 'polysemic' nature of the concept of neoliberalism behoves an empirically-grounded approach which critically examines the patterns of market-led restructuring as they occur in practice – as is attempted here (Brenner, Peck, and Theodore 2010, 184; see also Marginson and Sawir 2005).

A positive political economy approach to university funding

As noted above, many commentators have described the sector as a 'market', and (as will be detailed below) have described how decisions made by consumers and producers are, or should be, made. Such an approach, which uncritically adopts concepts drawn from economics, often ignores the ambiguous nature of higher education and the peculiarities of competition within the sector. The following sections focus on issues typically analysed by positive political economists when examining different sectors: the decisions taken by consumers and producers within the 'market', the role of information and the operation of the price mechanism, and the presence or otherwise of rent-seeking behaviour.

Consumers' decisions

Much work has been undertaken on the determinants of student choice in higher education (Brooks 2003; Connor et al. 1999; Moogan, Baron, and Harris 1999; Young 2000), including some drawing on a 'positive' political economy perspective (Lang 2009). This work has indicated that student decision-making depends significantly on the nature of applicants' existing qualifications and academic interests, the perceived reputation of different institutions and courses (including their perceived impact on future earnings), tastes, fashions, and students' and their parents' income levels, and finally, the fact that demand for higher education is relatively price inelastic (although choice of HEI, and in particular whether to study near home, may be influenced by cost concerns, particularly for working-class students; Reay et al. 2001).

Given that students may have certain preferences concerning the type of university and course they wish to attend, numerous information sources exist to help British students make their choice. These include student-experience surveys (Ipsos MORI's National Student Survey; the Times Higher's Student Experience Survey) and league-tables (the Times' and Sunday Times' Good University Guide; the Guardian University Guide; the Independent's Complete University Guide; Shanghai Jiao Tong University's 'Academic Ranking of World Universities'; the incipient Times Higher Education World University Rankings; etc).

Recent debates concerning British higher education funding suggest a continuing asymmetry of information between 'consumers' and 'producers', despite the growth of such information. For example, the chair of the 1994 Group, Paul Wellings, suggested that 'all students be given minimum expectations of contact hours with lecturers, class sizes and feedback', and that this be enforced by the threat of penalties from the British Higher Education Funding Council for England (HEFCE), not punished by the 'market' (Shepherd 2010a). The Browne Review repeated the view that 'many prospective students do not get adequate advice or information to help them choose a course of study' – and that improving the quality and quantity of information provided will enable students to 'shape the landscape of higher education' (2010, 4). In particular, the Review proposed the introduction of 'individualised' careers guidance in schools, that HEIs provide more information on employability following graduation, and that they produce 'Student Charters', which might detail, for example, feedback arrangements, class sizes and the identity of teachers for specific courses (Browne 2010, 31).

Despite the abundance of information concerning HE 'quality', these developments indicate a continuing frustration with the role of information within the HE 'market'. Despite the fact that league table information is widely available, for example, there is little evidence that students' choice of HEI is significantly affected by league table position – and what evidence does exist is relatively equivocal (Gunn and Hill 2008). Indeed, the Browne report itself acknowledges that much information is already available to students, albeit not always in a way that is easily assimilable (Browne 2010, 31).

A positive political economist might suggest this frustration is at least partly due to the ambiguous nature of higher education qua 'consumable'- the question of what type of private good higher education constitutes. Of course, it has often been argued that higher education possesses many characteristics of a public good; that this character (qua public good) is dominant over other conceptions (Marginson 2009, 7); or indeed, that certain of higher education's aspects, such as the production of knowledge, should be viewed as a public good (Stiglitz 1999).

The majority of participants in the British higher education funding debate, however, have focused predominantly, indeed, virtually exclusively, on higher education's 'private good' aspects. For example, while the Browne Review acknowledges that higher education benefits individuals and 'the nation, through higher economic growth rates and the improved health of society' (Browne 2010, 2), it maintains that its private benefits exceed public ones (2010, 21). None of the 'principles' followed by the Browne Review mention the public benefits of higher education, nor is society listed amongst the beneficiaries of its new proposed funding system (as opposed to students, their parents and families, HEIs and the government) (Browne 2010, 9). Indeed, the Browne Review requires the removal of *all* public subsidy for 'non-priority' subjects (2010 27, 47) – essentially, subjects other than science, technology, engineering, mathematics, health-related and (potentially) modern languages. The 'public interest', within the Browne Review, is limited to ensuring that what public investment remains within higher education is well spent- i.e., to 'safeguarding taxpayers' money' (2010, 45). Hence, for the Browne Review, higher education is viewed almost entirely as a private good.

However, ambiguity remains concerning what type of private good higher education might constitute. This ambiguity can, perhaps, be clarified by adopting a positive political economy approach, which differentiates between different types of private good. As Marginson and others have noted, higher education is often viewed, particularly when it comes to higher status HEIs, as a *positional good* (with the value of a place on a specific course at a specific institution depending on its ranking in desirability when compared with other alternatives; Hirsch 1976; Marginson 2009, 2004). As Marginson suggests, in elite institutions in particular:

> . . . the private benefits are the places themselves (which provide lifetime status translatable into economic benefits), the networking benefits of attending those institutions, and the degree certificate itself which can be exchanged in the professional and occupational labour markets and has lasting private status value. (Marginson 2009, 9)

This suggests that information concerning 'quality' will only be taken into account where it enables potential students to 'rank' possible options (i.e., reaching 'thresholds' of minimum performance is less important than position on the spectrum of performance). Some approaches to evaluating British higher education already appear to adopt this approach, prioritising the degree of competition for places at specific institutions by, for example, suggesting that the quality of courses can be assessed by examining the A level grades of those admitted (Coates and Adnett 2003). Relatedly, it might be argued that higher education constitutes a *Veblen good*, where scarcity (and hence desirability) is signaled by increasing cost (as appears to have occurred, to an extent, in the British 'market' for international students).[2] The Browne report suggests that:

> ... where a key selling point of a course is that it provides improved employability, its charge will become an indicator of its ability to deliver – students will only pay higher charges if there is a proven path to higher earnings. (2010, 31)

However, students' future employment destinations are strongly correlated with factors that are unrelated to the 'quality' of the higher education they receive, factors such as their socioeconomic status before attending university and core skills developed in school (such as mathematical competence) (Wolf 2002).

An alternative view, which has not been expressed in current debates, would more appropriately view higher education as an *experience good*, where quality cannot be ascertained before consumption (Nelson 1970). For example, students' views concerning the appropriateness of coursework as against exams as a method of assessment, one of the pieces of information which the Browne Review describes as necessary for student choice (2010, 30) may change after three years' experience of university assessment procedures. As a result, simply providing more information need not necessarily 'improve' the quality of potential students' choices. Indeed, higher education can even be viewed as a *post-experience good*, whose quality cannot be ascertained even following consumption (Browne 2010), but *is* known to the seller of the good. In this case, providing more information will only 'improve' the quality of potential students' choices if they have the intellectual and analytical capacity, and related knowledge, to process this information appropriately (with the assumption that providers *would* have these attributes, so could judge quality). The fact that the vast majority of academics are viewed as possessing at least some specialist knowledge in their subject of research would suggest that their view of course 'quality', at least concerning their specific subject, may be more accurate than that of the uninitiated and untrained (or even, of those trained for only three, rather than seven or more, years).

The picture is complicated by the fact that students are not only consumers of higher education, but also in effect 'inputs into the production process' given that 'the presence of some types of students may influence the output experienced by other students' (Rothschild and White 1995, 574; Marginson 2004). As a result, providing 'high quality information' beyond what is already available, or repackaging existing information to make it more user-friendly, need not lead automatically to helping prospective students 'choose the HEI and courses which best matches [sic] their aspirations' (Browne 2010, 8).

Producers' decisions

A 'positive' political economist would also point out that the British higher education 'market' is notable for its generally 'closed' nature to new 'producers', i.e., to new HEIs. Obviously the number of HEIs has increased substantially with the incorporation of polytechnics and, now, teaching-only institutions able to convert to 'universities', and non-university organisations such as BPP offering a wide range of programmes (Knight 2006). The UK Universities Minister, David Willetts, has recently publicly supported the inclusion of more private higher education providers within the sector, either as stand-alone providers (Collins 2010) or to take over 'failing' public institutions (Nasif 2010). Nonetheless, in comparison to other 'markets', access for providers has until now remained very strictly controlled by the state in Britain, and entry costs are (evidently) relatively high.

It is arguable that in addition to controls on *entry*, until now the continued viability of existing 'suppliers' has been virtually guaranteed by the British state, through its powers to enforce mergers between institutions (as occurred, for example, with University College Cardiff), and ability to allocate HEFCE-funded numbers. Terence Kealey, Vice-Chancellor of the University of Buckingham has suggested that the 'introduction of significant top-up fees marks the emergence of a market in British higher education', and that such a 'market' makes inevitable the closure of HEIs which might have been protected via such mechanisms in the past (Kealey 2006). Julian Le Grand has argued that 'failing' institutions must be 'allowed' to fail without 'destructive political intervention' (2007, 83), if (quasi-/)markets are to operate effectively in the public sector. The Browne Review, however, proposes a combination of 'targeted funding' for 'small or specialist institutions' and 'mergers and takeovers', in order to prevent institutional failure (2010, 50). It remains to be seen how effective (and sustainable) this approach to ensuring institutional continuity will be, in the absence of one crucial, previously available policy lever – the ability to change the allocation of publicly-funded student numbers made to different HEIs.

It appears likely that a move towards more 'competition' in the system *would* be likely to lead to further concentration in the market (if not necessarily to an immediate change in the sector's ecology through spates of closures). The creation of the 'market' for international students can offer some ideas about possible developments, although one should be wary of drawing any direct inferences (not least because, with students who have already decided to move away from their home country, the influence of 'being close to home' in their choice of university is clearly irrelevant when compared with home students for whom this may be an important factor).

The market for international students has had its 'winners' and (relative) 'losers', and the 'winners' roughly approximate to those traditional universities which have proved able to attract increasing numbers of international students. Examining the distribution of international students at pre-1992 universities from the introduction of full-cost fees onwards, confirms this. The numbers of international students attending particular HEIs can be examined using data from the Higher Education Statistics Agency. There is comparable, apparently error-free data available from HESA on 46 HEIs which have persisted with a roughly similar institutional structure between 1979 and 2004. Initially, the distribution of international students attending different HEIs appeared to converge slightly following the introduction of full-cost fees. However, by 1982–1983 this convergence was replaced by increasing divergence between HEIs, with the difference between HEIs' intakes of international students increasing year on year (with the exception of a small increase in convergence during 1986–1988). By 2001, amongst comparable pre-1992 universities, the number of international students ranged from St David's University College with 54 international students to Nottingham University with 2651 international students.

An analogous stratification occurred in terms of the revenue accruing to different HEIs from international students' fees, at least until the late 1990s (see Table 1 below). Interestingly, many of those HEIs charging relatively high fees have continued to accommodate relatively large numbers of international students compared with those charging comparatively lower fees.

The transaction: pricing

Another area examined by positive political economists concerns the operation of pricing mechanisms. Much reference has been made by university representatives to the 'cost' of

Table 1. Change in the fee per international student, from 1979 to 2004**.

Higher education institution	Change in fee per student, in thousands
University of Birmingham	4.27
University of St Andrews	5.44
University of Warwick	5.60
Uni. College of North Wales – Bangor*	5.66
Salford University	5.69
University of Oxford	5.77
University of Keele	5.87
University College of Wales Cardiff*	6.12
University of Bradford	6.14
University of Essex	6.16
Loughbourgh Institute of Technology*	6.73
University of Hull	6.89
University of York	6.91
University of Newcastle Upon Tyne	7.03
University College Swansea*	7.16
University of Stirling	7,17
University of Reading	7.21
University of Kent at Canterbury	7.35
City University	7.44
University of Sussex	7.50
University of Cambridge	7.60
Uni. College of Wales Aberystwyth*	7.61
University of Exeter	7.65
University of Sheffield	7.72
University of Dundee	7.72
St David's College*	7.73
Manchester University	7.85
University of Manchester Inst of Tech.	7.91
University of East Anglia	7.92
University of Southampton	8.00
University of Lancaster	8.09
University of Nottingham	8.15
University of Bristol	8.33
University of Leeds	8.52
University of Aston (Birmingham)	8.73
University of Aberdeen	8.77
University of Liverpool	8.91
University of Glasgow	8.96
University of Surrey	9.08
University of Edinburgh	9.41
Brunel University	9.49
University of Durham	9.53
University of Bath	9.82
Herriot Watt University	9.93
University of Strathclyde	10.42
University of Leicester	11.54

Notes: Data are from the Higher Education Statistics Agency, Annual Statistics series. For starred institutions (*), the original institutional name is used, to prevent confusion due to mergers or changes in names. ** The change in fee per student is given in 2004 £s, prices having been discounted for inflation over the period (using ONS measures of inflation, rounded up from .5). The fee per student was calculated by dividing the amount of institutional income derived from 'other' fees by the number of 'overseas students' (as they were classified in USS statistics) and 'full-time equivalent overseas students' (from HESA statistics). Clearly, this is an inexact measure, which fails to capture differences in HEIs according to the proportions of postgraduate and laboratory-based international students they recruited. However, in the absence of any other way of measuring average fees, it has been adopted for the purposes of comparison over the time period. Although there was considerable consolidation and reorganisation in the Welsh higher education sector over the period studied, it was possible to track most institutions even although some changed title. The following conventions were adopted: University College of Wales Aberystwyth was treated as equivalent to University of Wales, Aberystwyth; University College of Wales Cardiff was treated as equivalent to University of Wales Cardiff; Bangor University College was treated as equivalent to University College of North Wales- Bangor; University College of Swansea was treated as equivalent to University of Wales, Swansea. In addition, Loughborough Institute of Technology was treated as equivalent to Loughborough University. The University of London was initially treated as a single category in statistics on fee levels, before being differentiated into its component units. As a result, it was impossible to treat institutions continuously and was therefore necessary to remove the University of London colleges from the analysis. Continuous data was also unavailable for the Manchester Business School. Finally, London Business School was excluded due to an error in the collection of its fee data which HESA was unable to account for (and which LBS apparently does not hold in-house). The table obviously excludes all previously non-university HEIs, many of which became universities soon after 1992. Unfortunately there is no adequate data set which includes these HEIs for the duration of the period studied (which is unfortunate since the full-cost fees decision had a disproportionate effect on maintained sector HEIs). As the Northern Ireland Office did not raise international fees to full-cost fees, but left the subsidies in place (McGill, 1979), Northern Irish HEIs were not considered.

educating students for different courses and at different institutions. Hence, for example, Lord Patten recently maintained that the ‘amount universities receive from tuition fees and government grants barely covers half the £16,000 it costs to teach an undergraduate at Oxford’ (Shepherd 2010b). Similarly, the Director of the Russell Group, Wendy Piatt, has highlighted the fact that a third of Russell Group universities’ expenditure is taken up with paying academic staff, and that:

> . . . without the additional resources provided by variable fees, Russell Group universities would have been increasingly constrained in their ability to recruit the best international talent and thereby to maintain the quality of their research and teaching. (Williams 2010)

This is despite the fact that in a number of HEIs, much teaching (particularly of undergraduates) is undertaken by Graduate Teaching Assistants (Muzaka 2009).

Nonetheless, by linking potential fees to the ‘cost’ of higher education, and thereby to staff costs, the possibility of HEIs charging below the full fee amount proposed by the Browne Review (£9000) is reduced. Why this is the case can be seen from examining both the previous introduction of tuition fees up to £3000 where all HEIs eventually converged at the full fee amount; and from examining the failed introduction of a ‘bidding’ system for extra student places in the UK in the 1980s (Dodds 2008). The more or less explicit link within this system between unit costings and staff pay limited the degree of price elasticity for bids. The unsuccessful ‘bidding’ system relied on guide prices which had been set by subject specialists to adequately reflect the cost of educating an individual student in a particular subject, including the costs of staff and physical capital. Putting forward bids below the guide price would inevitably have sent a message to staff about how much their work educating extra students was valued by management. As the then editor of the Times Higher put it, ‘because the cost of particular types of student will now be fixed by the guide prices, universities may find it difficult to share out resources in ways that deviate from these authoritative “indications”’ (THES 12 January 1990).

The claims also ignore the apparent influence of reputation (and the possibility that HE constitutes a positional good) within students’ choices – which in turn affects the degree to which ‘price’ might genuinely act as a ‘signifier’ of quality. The Browne Review, for its part, argued that its proposed new funding system would enable competition both on the basis of price and of quality: ‘different courses will cost different amounts [and] institutions will have to persuade students that the charges they put on their courses represents value for money’

(Browne 2010, 25). This assumes that students are sensitive to the price of degrees and will take cost into account when making decisions about course choice. However, there is mixed evidence about the elasticity of demand for different courses. Evidence suggests that course costs may affect overall levels of demand for higher education (i.e., decisions to go to college or university in the first place) (Savoca 1990) but have a lesser effect on programme choice (Leslie and Brinkman 1987), at least for domestic if not for international students (Hagel and Shaw 2010).

Faced with relatively inelastic demand, potentially focused on reputation rather than 'value for money', universities with high reputations may be incentivised to inflate the alleged 'cost' of educating students, protected by asymmetries of information between themselves as producers and potential students (and also, to an albeit decreasing degree, the state) as consumers.

HEIs as rent-seekers

A 'positive' political economy approach would also stress the possibility of rent-seeking behaviour by producer groups (Tullock 1990, 205), which are ultimately driven by individual economic interests (Mueller 2003, 473). This approach would suggest that HEIs may resist the inclusion of new actors, specifically as a means of preserving market share. This approach has also, of course, been used within 'public choice' theories to suggest that organisations will attempt to maximise the share of government expenditure allocated to them; an insight built on by Olson in his theory of 'distributional coalitions' (Olson 1986, 172, 175–6). This would suggest that universities will likely attempt to retain and increase the share of government expenditure allocated to them, even if resource allocation ceases to benefit society as a whole (see Brennan and Tollison 1980).

This view appears to underlie the inference by some policymakers that public funding currently crowds out private funding of universities, even when this point is veiled by reference to the overall interests of the sector. Hence, the new English Universities Minister, David Willetts, has suggested that 'we must respect the autonomy of universities. We can strengthen this by giving them the widest possible range of funding streams' (Willetts 2010). Certainly, HEIs currently experience highly variable levels of funding from different sources, with the contribution from public funding councils amounting to as much as 72% of institutional revenue at the Conservatoire for Dance and Drama and the University of the West of Scotland, and as little as 7.6% at London Business School. The magnitude for different HEIs of fees paid for executive education and by overseas students, and income derived from other sources such as catering and conferences, differs widely across the sector (Times Higher Education 2010). However, how exactly *government* could give universities funding streams aside from state funding (apart from by removing the cap on tuition fees) is not explained.

Awareness appeared only gradually to dawn in the sector that, were funding to increase from private sources, the argument for public funding would diminish. Some have suggested that if variable fees were introduced, public funding could be 'capped'. Hence, Lord Patten, the Chancellor of Oxford University, has maintained that he would be prepared to accept a cap on funding of the teaching grant if other funds could be found to reach the '£16,000 it costs to teach an undergraduate at Oxford' (Shepherd 2010b). Rather than being 'capped', however, public funding will actually be removed for teaching in a number of subjects under the Browne proposals (as mentioned above). Nicholas Barr, the 'architect' of the existing student loans system and a supporter of variable fees, has argued that Browne and the UK government were both wrong to remove teaching funding for the arts, humanities and social sciences (Morgan and Baker 2010), yet this is perfectly consistent with an approach to student funding focused almost entirely on private benefit and the 'virtues' of competition to increase quality.

Les Ebdon, the Chair of Million+, was one of the few to have consistently acknowledged this, claiming that 'there is very little case for increasing fees from students if that would mean a decrease in funding from the funding councils' (reported in Swain 2010). Only at the start of June was this point, apparently, prioritised publicly by Universities UK, with its President describing a 'valley' with universities standing 'on the top left of the valley and look[ing] down into the abyss' of government spending cuts, and on the 'other side of the valley… the prospect of increased funding [following Lord Browne's review]'. Smith stated that the Browne proposals must lead to 'additionality', but also acknowledged that by 'opening up the prospect of "solving" the funding problems of universities', the Browne Review 'might allow politicians to cut more deeply than might be undertaken otherwise'. Finally, Smith also continued his colourful metaphor by suggesting the need for a 'bridge' to aid universities in crossing the funding 'valley' over the short to medium term (2010). Such an argument was not often made publicly by HEIs as part of previous discussions over tuition fees, and yet its relevance appears obvious.

The role of HEIs in creating and shaping markets: an institutionalist political economy view

This article has thus far considered the implications of basing policy on assumptions related to a particular view of higher education as a 'market', with relatively simple mechanisms determining demand, supply, and prices. It has adopted theories from 'positive political economy' to highlight ambiguities and potential problems associated with this approach.

'Positive political economy' generally adopts a 'methodologically individualist' view; that is to say, the analytical unit is viewed as (in this context) the individual consumer or producer, rather than the community of consumers and producers (for example). This approach takes the preference function of individual consumers and producers as 'given', and examines how, given these preferences, consumers and producers take decisions within a certain institutional context.

In reaction against this approach, institutionalist economists and political economists have highlighted the interrelationship between market institutions and market actors' preferences. Not only do market participants shape institutions, based on their preferences; their preferences are also shaped by institutions and by their interactions with other market participants (North 1990). The reflexive relationship between market institutions and HEI decision-makers' preferences, in particular, is rarely acknowledged by commentators. In practice, HEIs have not, generally, passively accepted new institutional forms within the sector, but have frequently either played a part in their creation, or have attempted to resist their creation, to varying degrees of success.

The relationship between governments and HEIs in producing new funding arrangements

There has been little public recognition of the considerable extent to which HEIs themselves have been involved in the introduction of particular new policies (aside from, or in parallel with, successive governments). In practice, many developments in Higher Education policy have merely reflected changes already occurring within the sector (Kogan and Hanney 2000). As Brown notes, HEIs and the academics within them have often openly participated in even relatively unpopular initiatives, such as the RAE, where Brown described HEIs as 'complicit in government policies' (2009). Similarly, the Dearing Report on university funding was of course occasioned by the CVCP's threat that it would introduce 'top up' fees in the absence of government action (Shattock 2008).

Disagreement between HEIs and government over the balance between private and public funding has generally related to the detail of policies, such as the extent to which tuition fee income was cancelled out by government-required 'efficiency savings' (Shattock 2008, 189). It has not, generally, concerned the *principle* of new funding systems themselves. Even those who maintain that HEIs have been subject to increased government control mainly appear to refer to new regulatory requirements such as greater pressure to promote access and produce economically-relevant research – and not to fundamental funding issues such as the balance between public and private funding (Shattock 2008).

In other cases, HEIs might have been able to prevent the introduction of new systems, but failed to effectively coordinate their resistance to them. A useful case study of such a failure is provided by the introduction of international students' fees. Up to the late 1970s, international students' policy in Britain was led by the perceived need to maintain links with the Commonwealth, and to aid economic development. International students were not 'recruited' but 'accepted' by a relatively small number of HEIs, mainly located in London and the South East.

In 1979 the UK government took the decision to introduce full-cost fees for international students. Although opposed to the change, British HEIs failed to effectively coordinate opposition to it, and proved unable to collectively influence the parameters of the new system, although some (albeit limited) mitigating measures were introduced such as additional scholarships for certain categories of students. This was in contrast to attempts to liberalise policies towards international students in other countries, with, for example, French HEIs being able to ensure through collective lobbying that new measures generally avoided a commercial approach to international students (Dodds 2007).

This difference is not related to different national 'styles', but instead to the willingness amongst HEIs to put aside sub-sectoral interests to coordinate resistance across the sector. Hence, there have been situations where British HEIs have successfully coordinated resistance, as when the universities opposed the creation of a 'bidding system' referred to above (Bargh, Scott, and Smith 1996, 17). Only one university offered a significantly lower cost per student, amidst suggestions of collusion amongst universities to maintain unit costs (CVCP 1990, 3). The ability to coordinate opposition is not, therefore, uniquely contingent on national contexts, as British HEIs have on occasion been able to collectively resist and/or reshape the parameters of liberalisation by government.

HEIs do not, however, appear prepared to coordinate opposition effectively to the new funding approaches currently being suggested at a policy level. Instead, the different representative groups have advocated a variety of different positions in relation to the proposed new funding system. For example, the Russell Group (of 'research intensive' universities) has supported the new proposed funding scheme, stating that newly announced 'indicative cuts to teaching funding for 2012–2013 of an additional £830m highlight just how important recent parliamentary votes were in providing essential funding to replace these losses, albeit via increased fees and graduate contributions' (Russell Group 2010). In contrast, the Million + think-tank (representing HEIs focused on increasing participation) has argued that the proposals will likely 'impact adversely on social mobility and participation', as well as being 'unlikely to provide good value' (Million Plus and London Economics 2010). The 1994 Group (of smaller research-intensive universities) supported the proposals as providing 'stability' for the sector (1994 Group 2010), whilst the Alliance Group (of business-focused universities) appeared concerned to reach a sustainable balance between government and private funding, following the current round of public spending cuts, and for the government to provide better information about the new scheme (Alliance Group 2010).

In addition, there appear to have been few attempts by HEIs to coordinate amongst themselves, aside from via mergers, to preserve British capacity in relation to specific subject areas or functional roles (with an exception coming from Watson and Bowden 2001). As Lang notes, 'colleges and universities traditionally aim to be distinct and self-sufficient. Each college or university seeks to be complete in terms of its own goals and standards. Moreover, that is how they tend to describe and market themselves' (2003, 154). As a result, the 'first reaction to "demand overload" is more likely [to be] in the direction of intensified competition than of cooperation' (Lang 2003, 155).

This failure to coordinate could be viewed in two ways. One could, first, view it as demonstrating HEIs' focus on short-term interests (e.g., the desire for more fee income following the introduction of variable fees) rather than long-term interests (e.g., the desire to prevent the decline in societal and political support for public subsidy that might follow the introduction of more private funding). This explanation is consistent with a 'positive political economy' approach as it maintains methodological individualism. However, it appears contradicted by the fact that an individualistic response may be in some prestigious HEIs' interests over the long as well as the short term. For example, the likelihood of a more segmented higher education 'market' may be viewed as favouring the long-term interests of many Russell Group institutions, by enabling them to capture a higher proportion of (high fee-paying) students within their ivory towers.

A contrary, but related, approach would suggest that decision-makers within HEIs can be divided into 'knights' and 'knaves' on the basis of their overall concern for the interests of the British higher education sector. Following Le Grand:

> ... knaves can be defined as self-interested individuals who are motivated to help others only if by so doing they will serve their private interests; whereas knights are individuals who are motivated to help others for no private reward, and indeed who may undertake such activities to the detriment of their own private interests. (Le Grand 2003, 27)

This argument could equally be phrased in terms of the degree to which HEI decision-makers concern themselves with the provision of externalities (e.g., the production of a generally educated population, encouragement of critical debate, etc) rather than only with the production of private (and thus more lucrative) goods (Marginson 2009).[3]

Shattock describes HEIs as subject to an 'unconscious self-framing [of] the development of legally independent and autonomous institutions of learning in an inappropriate public service model' (2008, 200). An institutionalist political economist might suggest that, rather, HEIs have generally, consciously or unconsciously, pursued short- and medium-term interests, and/or a 'knavish' position, rather than considering the longer-term implications of their activities, and/or the impact of these on the higher education sector as a whole.

An 'institutionalist political economy' approach would then be interested in investigating the circumstances under which HEI decision-makers adopt a short- or long-term strategy, and/or a 'knavish' or 'knightly' position, given that such roles are not entirely determined by the institutional context. As Beckert suggests, following a review of institutionalist approaches, while institutions and social structures may shape the adoption of particular responses, the same set of rules and norms may lead to multiple interpretations (including concerning the appropriate constituents of 'self-interest') depending on the cognitive frames of market participants (Beckert 2010).

Conclusion

This brief article has indicated how numerous actors within British higher education have adopted language drawn from economics when debating the future of higher education funding. It has examined how 'consumers' and 'producers', the choices they make, and the parameters of their interaction (such as the price mechanism) have been conceptualised, and how these conceptualisations might be challenged. For example, it has shown how some expressed views concerning the role of information in programme choice ignore ambiguity concerning the nature of higher education as a private good. Similarly, it has indicated how attempts to 'read off' the price of higher education from the cost of its production ignore the importance of marginal costs as well as the artificiality of price setting within a sector where producers enjoy considerable asymmetry of information compared with consumers.

The article has also considered how a view of HEIs as passive participants in the higher education 'market' fails to acknowledge their role in helping create, sustain and shape particular policies. Not only have HEIs often promoted (or failed to resist) attempts to liberalise higher education, many have also appeared to prioritise short-term or, alternatively, 'knavish' motives (i.e., their own HEI's interests). This focus has been to the detriment of a focus on the long-term interests of the sector, and ignores the traditional role of British HEIs in, collectively, producing public goods as well as private goods.

As Fourcade has exhaustively detailed, the adoption of concepts drawn from particular economic approaches is not a 'neutral', inevitable process (2009). Rather, the adoption of a certain view of the nature of the consumer, producer, pricing, supply, demand, etc, is societally contingent. It can have substantive effects on both policy debates and, ultimately, policy itself (not to mention on the decisions made by market actors on a day-to-day basis). This article suggests a need for decision-makers within higher education to adopt a more reflective, critical, and ultimately responsible approach when using economic theories to analyse their own sector. This approach should recognise more explicitly the influence of economic theories and language on the peculiar nature of the current British higher education funding debate.

Notes

1. This paper considers political economy as an *analytical* approach, not a prescriptive one (*contra*, for example, Slaughter, who emphasises the role of 'conservative or Chicago school' perspective political economy as a means of de-emphasising 'the polity, instead stressing the role of the market in national economic success'; 2001, 399).
2. I am grateful to Colin Thain for this suggestion.
3. I am grateful to Peter Davies for this suggestion.

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