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WHAT FUTURE FOR UK HIGHER EDUCATION?

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ABSTRACT
Historically, the UK system has been one of the most successful in combining excellence with access. However the favorable conditions that British universities and colleges have enjoyed in recent years, associated in large part with the introduction of higher tuition fees in 2006, are coming to an end. British universities and colleges face a future of static or even falling local demand, increasing local and international competition, severe public and private expenditure constraints, increased regulation, and greater difficulties in aligning costs with income. In the first instance, these pressures are likely to lead to increased collaboration, often in the form of mergers, where a stronger institution absorbs a weaker partner. In the medium to longer term, the creation of much sharper differences between institutions, and an even more pronounced hierarchy, seem probable. As well as setting back access, these developments (if they occur) will have very adverse consequences for the cohesion, health and standing of UK higher education.

The only reliable forecast [is] *our inability to forecast* - Vaclav Smil, quoted in Cohen, 2009

The United Kingdom has been more successful than many other systems in combining excellence with access. The UK is second only to the US in the international reputation of its universities and in producing highly valued academic research outputs. But, like America, the UK now faces significant challenges from demographic change, severe constraints on both public and private expenditure, increased domestic competition for both research and teaching funds, increasing international competition for both students and staff, and great difficulties in aligning costs with income. This paper reviews these challenges. It suggests that the outcome may be a substantial restructuring of the sector, with much sharper differences between a much smaller number of institutions. This in turn may damage the system and put at risk its ability to provide the full range of public and private goods in an effective and economical fashion.

THE CURRENT POSITION

In recent years, UK universities and colleges have enjoyed a boom: the author recalls Prime Minister Harold Macmillan's famous saying "you've never had it so good". Applications and enrolments are at record levels, the introduction of higher tuition fees in 2006 having so far done little to depress demand. The long decline in the public unit of funding since the 1980s has been partially reversed, and English institutions are now in the fourth year of the "additional" revenue from fees (Scotland abolished fees in 2000; Wales and Northern Ireland have the same regime as England, except that Welsh students staying in Wales are entitled to a yearly, non-repayable non-means-tested fees grant which covers half of the costs of the course).

Enrolments of overseas students continue to increase, with the UK holding its position as the second most attractive destination for internationally mobile students after the US. Public research funding continues to increase annually at a level well above the GDP deflator (the Government's measure of inflation for public expenditure purposes). Income from industry and commerce continues to increase. Universities have begun to reinvest, with record levels of borrowing. Staff have enjoyed significant, one could even say remarkable, pay increases to go with their final salary, inflation proofed pensions. According to the Chair of the Universities and Colleges Employers Association, national pay for all staff has increased by more than 15 per cent since 2006 (on top of annual increments) with 8 per cent in the last year alone (Wakeham, 2009).

Although they may not appreciate it, UK students (and EU-domiciled students studying in England) are also enjoying one of the most benign of the market-orientated funding regimes. The tuition fee is capped at £3,225 ($5,160 at prevailing exchange rates) for 2009-10. Although fees have increased, they are still well below actual cost. No fees need be paid "up front" or even whilst studying. Loans for tuition and maintenance are subsidised. Some grant support is available for households with a residual income of up to £50,778 (twice the national median salary) and there are also institutional bursaries. Loans are only repayable when graduates reach the £15,000 threshold, and repayments of 9 percent above threshold are not scaled to income above that level.

As Peter Wilby wrote of the original fees package:

This is the sound of the suburbs saying thanks for the cash (Wilby, 1998)

Indeed, it is the very size of the public subsidy for students that is the principal obstacle to raising the fee cap: the recently announced review of the cap[1] will be as much about the costs to the taxpayer of student support as it will be about the funding of institutions. Finally, although recent graduates are entering a very difficult labour market, they will continue to enjoy lifetime financial advantages, as well as more secure employment and better job quality, as compared with non-graduates (cf. McMahon, 2009).

THE FUTURE

However, this boom is now coming to an end. To begin with, we know that after 2010-11 there will be a significant decline in the numbers of 18- to 21- year olds on which most universities depend for the great bulk of their full-time students. The actual impact will depend on regional and local trends and also on what happens on migration, and especially immigration from the EU (Scotland will see an even bigger decline than England). The 18-20 year old population will not start to recover until 2020. There may in the meantime be some compensating increases in the numbers of both mature and young part-time students, but these do not offer the same stability of income as full-timers; they also require a wider (and more expensive) range of learning models (Universities UK, 2008a and b).

Educational attainments at 18 appear to have leveled off: in England there has been no increase in the proportion of 17-year olds with two Level 3 qualifications since 2002. There is certainly a pool of students with 7 or more good (A* - C GCSEs) who fail to progress to Level 3 (Bekhradnia and Bailey, 2008). Raising the age at which young people are legally required to receive education and training (to 17 in 2013 and 18 in 2015) should absorb some of these. Even so, and in spite of the Government's emphasis on widening participation, the social class composition of the student body seems unlikely to change very much. Widening participation has still to be seriously tackled in the UK; it certainly will not improve if we are entering a period of consolidation.[2]

There may well be an increase in the numbers of home postgraduate students although no one yet knows what the impact of variable fees for undergraduate courses, and the consequential levels of debt, will be on this market. On the one hand, increasing numbers may be attracted by the additional "leverage" of a postgraduate qualification, especially in a recession (Sugden, 2009). On the other, if they have any spare cash they may prefer to use it to pay off their loans.

Overseas student numbers will continue to grow but at more modest rates. According to OECD figures, the UK share of the international student market is falling (Organisation for Economic Cooperation and Development, 2008). Studying in the UK is expensive even with the recent softening of the pound, nor do the actions of the UK Border Agency help (Williams and Shepherd, 2009).[3] Competition is intensifying, especially at the postgraduate level, with a number of European universities mounting courses taught in English which are unarguably Bologna-compatible (UniversitiesUK, 2009**).**

The great majority of our overseas students come from a small number of countries (China, India, Hong Kong, Malaysia, Nigeria). Some of these countries are now becoming more self-sufficient. Malaysia is seeking to become a regional higher education "hub". India is planning a huge investment in its universities. China is now the fifth largest **im**porter of students (behind the US, Britain, France and Germany) and the aim is to attract half a million such students by 2020, which is just below current US levels (Hvistendahl, 2008). (Interestingly, the third largest supplier of students to China is the US). The US itself has ambitious plans to increase its share of international student recruitment, feeling that countries like Britain, Australia and Canada have so far exploited the English language more effectively in this respect (Gill, 2008; Baty, 2009). Another big supplier, Norway, is planning to reduce the funding of its overseas students. However, partnerships with overseas institutions will continue to grow though without necessarily becoming more profitable.

Overseas students are of course vital for our institutional finances: without them the sector would literally be bankrupt whilst many of our science and technology departments would have few or no postgraduate students (overseas students contribute some 8 per cent of the sector's income, and an even greater proportion of our surplus). Whilst the financial position of most institutions is better than it was, the annual net surplus is still below the 3 to 5 per cent of turnover that is seen as the necessary minimum (Newman, 2008c).[4] Moreover, revenue performance, and wealth, are very unevenly spread, as of course is research income. Endowments will expand but are unlikely, if ever, to approach the American scale, and again these will be very unevenly spread between institutions (as in America). The current administration in England is pushing employers to contribute more to the costs of teaching. There will certainly be an increase in employer funded provision but all past experience suggests that it is most unlikely to amount to a significant proportion of the total (it could also depress the unit of funding).

At the same time, the concentration of research funding (and the funding of research students) will continue, with the Big Four (Oxford, Cambridge, Imperial and University College London) having about a third of the research funds from the Higher Education Funding Council for England (HEFCE) and the Research Councils (and an even bigger proportion of the admittedly smaller volume of funding from non-EU sources and UK charities). Both research and teaching will of course be affected by the credit crunch.

In his May letter to the HEFCE Chair, the then Secretary of State, John Denham MP, referred to the need for "efficiency savings" of £400 million across his department by 2010/11, most of them from the universities (Department for Innovation, Universities, Science and Skills, 2009). His successor, Lord Mandelson, has now announced further cuts for 2010-11 of £518m (a 6 per cent reduction on 2009-10) (http://www.bis.gov.uk/wp-content/uploads/publications/Mandelson-Letter-to-HEFCE-Dec09.pdf). These are on top of £600m savings in the period to 2013 announced in the Chancellor of the Exchequer's Pre-Budget Report at the beginning of December, which are additional to those announced in May.

In the meantime, the Funding Council has cut back on the additional funded numbers of students; this is on top of the earlier, and controversial, withdrawal of support for students on equivalent or lower level second-degree courses. It seems clear that the universities will bear some of the brunt of the public expenditure cuts that are deemed necessary to pay for the additional public expenditure necessitated by the economic crisis, from which the police, schools and hospitals in particular are protected.

John Denham's letter also spoke of using public spending to "shape the sector more effectively...for example to ensure that universities are incentivised to maintain and grow the courses and programmes which are most in demand by employers and provide the best prospects for students". He asked the Funding Council to consider whether a greater proportion of institutions' funding should be "contestable" to promote "innovative developments". Similar themes can be found in the policy statement *Higher Ambitions: The future of universities in a knowledge economy* issued by the Government on 3 November (Department for Business, Innovation and Skills, 2009). At the same time, the Conservatives are known to be considering vouchers, whereby all of the public contribution to the cost of teaching comes through the student (Newman, 2008a).

What all this means is that there will be even greater institutional competition for income, public or private, within a more constrained resource envelope. But in contrast to the increasing concentration of public research funds (which industry funding follows to some extent), funding for teaching will become ever more widely dispersed. As well as the new, new universities (formed when the Government changed the criteria for university title in 2004), we now have five private institutions with degree awarding powers (Ashridge, BPP Learning – now part of the Apollo Group, the College of Law, ifs School of Finance and the University of Buckingham). There are also to be six new centres under the University Challenge scheme, all linked to existing universities (Somerset, Crawley, Milton Keynes, Swindon, Thurrock and the Wirral) (HEFCE, 2009a).

We also have the prospect of at least one further education college gaining Foundation Degree Awarding powers in the near future, although the idea of a new national "skills university", where students would do a two- year Level 3 course followed by a two- year Level 4 one (Newman, 2008b) appears to have been abandoned, at least for the moment (Lee, 2009b). (Instead, the Association of Colleges is calling for FE colleges to be able to run modules and bite-sized chunks of HE funded directly by the Funding Council: Thomson, 2009). Although the Shadow Secretary of State is reported to be lukewarm about degree awarding FE colleges (Lee, 2009a), he is known to be enthusiastic about increasing competition for universities generally. It is even possible that there will be real price competition on fees within the present price cap as universities struggle for income (Newman, 2009a); there is already some competition on bursaries.

Even with the present aid regime, students are leaving universities with debts upwards of £20,000. Estimates of the lifetime earnings advantage of graduates over A level school leavers have been reduced from the £400,000 or so quoted by Ministers while the variable fees legislation was being introduced in 2003/04, to £160,000 (Price Waterhouse Coopers, 2006); there have been more recent estimates as low as £100, 000 (Attwood, 2008b). Moreover, these private returns vary considerably by subject studied, institution attended, degree class obtained, and social background. *The Guardian* reported in 2008 that a third of the students who had graduated after 1998 had still to begin repaying their loans (Curtis, 2008).

There have been lots of press reports about the difficulties that recent graduates are or will be facing in gaining suitable employment, and about Government responses, such as encouraging employers to offer internships (Curtis, 2009; Woolcock, 2009; Williams, 2009). There is no sign yet that these difficulties have affected student demand or willingness to pay fees. What is clear, however, is that increasing numbers of students are beginning to take costs into account in deciding what and where to study (Gill, 2009), and will be studying at or closer to home. This in turn means that location will become an increasingly important competitive factor for institutions, which the increasing costs of travel will reinforce. A trend towards local study also has unhelpful financial implications for those universities with large amounts of moderate quality residential accommodation that will not be needed in future (Royal Institute of British Architects, 2009).

At the same time, it is very hard to see what can be done to reduce costs or raise productivity, at least without damaging quality. Some costs, such as energy costs, are only partly in the institutions' hands. Others, such as pension contributions, are politically difficult to deal with: either contributions will have to be increased to cover the funds' rising deficits or pensioners' benefits will have to be cut, or both (Attwood, 2008a). Students are increasingly vocal about group size, access to tutors, quality of feedback, etc., and as paying customers can be expected to become even more so.[5] Our student/ staff ratios are already amongst the highest in the OECD. As in other comparable systems, an increasing proportion of the academic workforce is employed part-time and/or on fixed term contracts. Whilst a greater proportion of teaching, assessment and administration will be delivered electronically, there are unlikely to be any significant cost savings. There seems little likelihood of a radical change in the higher education "production function" (and even less sign of any appetite for it). And even if there were to be a pedagogic revolution through advances in ICT, why would universities be better able to exploit it than commercial providers (PA Consulting Group, 2008)?

There is likely to be an increase in regulation. Following a report by a House of Commons Select Committee in August (House of Commons Innovation, Universities, Science and Skills Committee, 2009), HEFCE has just published a consultative paper (Higher Education Funding Council for England, 2009b) proposing a strengthening of the current institutional audit regime and greater reliance on comparative information about institutional and course quality. Both will make greater demands on institutions without necessarily improving quality or raising standards.[6]

Finally, we should not forget that, although the revenue position of UK universities and colleges has improved since the early 2000s, there remains a huge backlog of investment in infrastructure, especially for teaching. This reflects the resourcing squeeze under successive Conservative governments in the 80s and 90s, which the incoming Labour administration did not immediately unwind. As has already been said, institutions have begun to redress this but there is still a very long way to go (JM Consulting, 2008). So what, against this somewhat gloomy background, will be the future shape of the sector?

THE FEES REVIEW

It seems safe to assume that there will at some point be an increase in the fee cap coupled, almost certainly, with a reduction in the "generosity" of the present student support regime. We can also assume – depending partly on the level to which it is raised [7] – that there will be far more competition on price than we have so far seen. We are also assuming – on the basis mainly of American experience – that the main impact of such competition will be to exacerbate the differences in funding and reputation between institutions (and the social groups they serve), without any compensating gains in effectiveness or efficiency. This is because of the impossibility of producing valid, reliable and accessible comparisons of educational quality (and, probably, academic research), which in turn means that resourcing and prestige, linked usually to institutional longevity and performance in research, serve as a substitute (Brown, in press).

THE FUTURE SHAPE OF THE SECTOR

So what will all this mean for the future shape of UK higher education? The immediate response is likely to be an increase in inter-institutional collaboration in order to strengthen market position and/or make better use of resources (Newman, 2009c). This will take a number of forms:

1. Local collaboration with other higher (and sometimes further) education institutions within the UK system;
2. Collaboration with institutions overseas;
3. Collaboration with partners from outside the sector.

The first is already starting to happen in research. However it isn't easy to achieve, especially in teaching (Corbyn, 2009). Older universities will be reluctant to collaborate with newer ones for fear of losing prestige. Newer universities may not want to collaborate with competitors. The second is also already happening: one estimate is that there are some 200,000 students studying outside the European Community on courses leading to British qualifications (Fearn, 2009). The third is also starting though the challenges of profitability, management, control and culture should not be underestimated.

Whilst increased collaboration is clearly going to happen, more radical changes can be anticipated. My prediction is that, if present policies continue, by 2015 or thereabouts the great majority of our higher education institutions will belong to one of the following groups:

1. Brand name universities;

2. Convenience providers;
3. All purpose institutions;
4. High quality specialist providers.

There will also be some restructuring of the curriculum.

RESTRUCTURING OF INSTITUTIONS

The first group of institutions will consist of a small number of "brand name", selecting universities able to charge premium fees for virtually any course, and capable of attracting a significant proportion of the ablest students and staff through a reputation, whether or not deserved, for teaching and research "excellence". Significant numbers of these will be from abroad. Most of the dwindling numbers of people who still favour an academic career will be educated here. Together with the hold that such institutions have on the government and media, this means that our system, whether it remains a "mass" one or becomes a "universal" one with over 50 per cent participation (Trow, 1974), will continue to be characterised by inappropriate, "elite" values (Scott, 1995). These institutions will also be comparatively successful at raising funds from alumni, philanthropic foundations and business. It is status and prestige that is the key competitive driver for these institutions.

At the other end of the market, there will be significant numbers of "convenience" providers offering "no frills" courses when, where and how they are desired, particularly to older students and students in work. Accessibility, flexibility, responsiveness and customer service are the key drivers here. The staff will be employed on a similar basis to FE lecturers now i.e. heavy teaching loads and no time allowances for research. These providers will mainly cover applied areas such as business and IT but could extend to professions like teaching and nursing. Staff have little say over the curriculum to be taught or the methods of student assessment. The nucleus of this group will be new private providers (King, 2008), possibly controlled from abroad, together with some of the larger FE colleges.

Between these groups, there will be a band of economically marginal "all purpose", multi-campus institutions, mostly based in the conurbations, offering residential higher education to those who still want and can afford it. They will have some part-time students. Staff will be conducting research but this will be mostly of an applied nature, often linked to the local or regional economy. This group will include a small number of new "mixed economy" colleges spanning the current FE/HE boundary. For some courses these institutions will be "selectors", but for most they will be "recruiters. They will be distinguished neither for excellence nor access.

Finally, there will continue to be a small number of expensive specialist institutions able to command premium fees for their quality, real or perceived. The London School of Economics, the London Business School, the Royal College of Art are already in this category. Other specialist institutions will disappear, as indeed they have been doing steadily over the past twenty years (according to the eighth *Patterns* report – UniversitiesUK, 2008d – the number of separate higher education institutions fell from 186 in 1994/5 to 169 in 2007/8).

Which group will an existing university or college belong to? This will depend on a number of factors:

1. Its status and reputation, which correlates broadly with the length of time it has been offering its own awards;
2. Its location. South and east is more populous and prosperous than north and west. Low prestige institutions that are located away from major population centres will be vulnerable, but so will such institutions in urban areas where there are many competitors;
3. The proportion of its core activities (teaching, research, knowledge transfer) which are or could be in "buoyant" areas (mode, level, subject);
4. The diversity of its funding sources and especially the flow of private income it is able to attract;
5. Its attractiveness to overseas investors or funders;
6. The scope it has for reducing costs without reducing actual or perceived quality;
7. Its underlying wealth, which takes us back to 1 (UniversitiesUK, 2008b).

The great majority of existing institutions will be in the third, “all purpose” group. Except in specific “niche” areas, they will be unable to compete on quality or reputation with the first group of “brand name” places. They will therefore be unable generally to charge premium prices. At the same time, they will be unable to compete on price or service with the second group of “convenience” providers. This is the excellence/access dilemma mentioned previously. These “all purpose” institutions will be formed through mergers or other forms of rationalisation, especially in London and other parts of the country where institutions are thick on the ground (Fazackerly and Chant, 2009).

Whether these institutions will be covered by a single regulatory regime is a moot point. Research selectivity has already been redundant these past twelve years or more, with ever more marginal gains in quality and efficiency; the reason it survives is that it underpins other agendas and hierarchies. By 2015 the Quality Assurance Agency for Higher Education (the principal regulatory body, with functions roughly analogous to a regional accrediting commission) may have evolved into an agency that accredits separate self-regulatory associations for each of the groups. But just to be sure, the Government may have created its own quality inspectors, who will be giving most of their attention to the innovators/ cost cutters in the convenience and all purpose groups. The fact that most institutions, but especially the all purpose institutions, will be working more closely with partners inside and outside the sector will only add to the complexity and cost.

We have proceeded so far on the basis that (a) the financial costs of institutional restructuring are tolerable and absorbable and (b) even if they aren’t, they will be offset by financial and other savings and benefits in the long run. Neither is necessarily correct.

On the first, the former HEFCE Chief Executive (David Eastwood) pointed out in *The Guardian* recently that the costs of restructuring could well exhaust the modest reserves of most institutions and require further borrowing, so increasing the sector’s indebtedness and placing a further burden on future revenues (Eastwood, 2009). On the second, it is certainly true that larger and more broadly based institutions are better able to spread risk and do more than smaller and more narrowly focused ones. However a study for Universities UK some years ago (Ramsden, 2001) suggested that there were economic benefits from rationalisation only where one of the partners was weak. Savings in support services were offset by the increased costs of managing a larger and more complex operation.

RESTRUCTURING OF THE CURRICULUM

In parallel with this institutional reconfiguration, there will be a restructuring of the curriculum. Institutions with a reasonably wide range of course offerings that receive a significant level of stable revenue are able, through cross-subsidy, to balance programmes that are more or less attractive to students. But the more an institution is subject to the vagaries of student demand (as, in principle, are all institutions where funding is related to enrolments), the more it will be forced into “popular” courses, and the less it is able to preserve provision “for its own sake”. The market participation of private “for profit” providers, which tend to “cherry pick” the more profitable areas of the curriculum, may exacerbate this. Comprehensive “not for profit” institutions are then less able to protect their more economically vulnerable courses. The result, paradoxically, is a reduction in the choices available to students. Even without the private providers in subjects like physics, chemistry, classics and modern languages. We can expect it to accelerate if entry barriers are lifted and /or competition becomes fiercer. This is what the marketisation of higher education means.

RISK ANALYSIS

What factors could change this somewhat dystopian picture?
It is possible to identify the following:

1. Public expenditure reductions turn out to be less draconian than currently forecast, aided by the fact that if student numbers are falling, the overall claim on public expenditure will automatically be less. However, it is at least as likely that Treasury will pocket the savings, so that there is no benefit in terms of the unit of resource;

2. UK institutions expand their share of the international market and/or their returns in that market. This also seems unlikely (though the market will continue to expand in overall terms).
3. Universities increase their private funding through tuition (if the cap is raised for enough institutions) and/or services to business and/or endowments. But will the private sector be willing to pay? Both families and businesses currently have record levels of debt. Endowments may be possible for Oxford and Cambridge and perhaps one or two other institutions but they are "academic" for the great majority.
4. Universities succeed in cutting their production costs. The main cost is of course staff. In principle, savings could be made if technology could be substituted for staff. However experience so far is that whilst the greater use of technology can improve quality, or at least quality of service, it doesn't reduce costs, and it does of course require up front investment. It seems more likely that we shall follow the US route and have an ever increasing proportion of teaching done by part-time and/or temporary staff ("adjunct faculty").
5. Efficiency increases through institutional rationalisation. Rationalisation will certainly happen, but overall the results of mergers in higher education have been as mixed as they have been in the corporate sector (at least we do not yet have the same pressures for merger from firms and individuals whose whole existence depends effectively on their ability to restructure firms).

Conclusion

To summarise:

1. UK higher education is coming to the end of a long boom, during which it has begun to redress some of the damage that was done to it in the 1980s and 90s;

2. This boom is being brought to an end by a combination of demographic change, stagnating school achievement levels, increasing international competition, severe public (and private) expenditure constraints, and an unwillingness or inability on the part of institutions and staff to align costs with income. There will also be an increase in regulation;

3. This will reinforce existing tendencies to stratification and fragmentation. These will be exacerbated by greater competition for students and income as a result either of lower entry barriers for providers or an increase in the level of the fee cap (enabling real price competition in the undergraduate market for the first time), or both;

4. Unless I am wrong about these major drivers, the system will divide into groups much more sharply differentiated by resourcing, reputation and location. Our higher education system will look like our school system, with access to education steeply differentiated by location and social class;

5. This will have very adverse consequences, both domestically and internationally, for the health, cohesion and reputation of UK higher education.

NOTES

1. The purpose of the review, to be conducted by an independent panel chaired by the former Chairman of British Petroleum, Lord Browne, is to analyse the challenges and opportunities facing UK higher education and their implications for student financing and support. It will examine the balance of contributions to higher education funding by taxpayers, students, graduates and employers. Its primary task is to make recommendations to Government on the future of fees policy and financial support for full- and part-time undergraduate and postgraduate students. It will report in the second half of 2010.
2. The recent Government policy statement on higher education *Higher Ambitions* (see below) makes a number of proposals to improve access. These include strengthening the advice and encouragement students receive earlier in their education with respect to setting their sights on university, reviewing the scope for highly selective universities to widen access, and expanding flexible study programmes. The proposal that is most controversial is that universities should make greater use of contextual data in their admissions processes, in particular to assess the aptitude and potential to succeed of those from poor backgrounds. However, all evidence and experience suggests that none of these proposals will make more than a marginal difference to the problem of differential access: the barriers to fair participation lie much further back in the educational system and too many government policies for education, society, taxation, income and wealth work against

equity (Brown, 2007).

3. On 12 November 2009, the Prime Minister announced that tougher measures on immigration would include clamping down on abuses of the student visa system. These will include raising the minimum level of course for which students from outside Europe will require a visa, introducing mandatory English language tests, and preventing overseas students from working part-time in temporary jobs that could be filled by young Britons. The Conservative Party, which seems likely to form the next government, has even more stringent proposals.
4. The average surplus across the sector in 2007-8 was 2.5 per cent, the largest for at least ten years. Even then over twenty institutions were posting deficits.
5. The *Times Higher Education* reported last year that several hundred finance and economics students at the University of Bristol had signed a 7-page letter of complaint about falling teaching standards since the introduction of variable fees in 2006 (Newman, 2009b). At the same time, the University, like many others, has begun to shed posts in anticipation of Government funding cuts (Morgan, 2009).
6. The current debate about quality stems from a number of cases that came to light in the media in the middle of 2008. There are several strands but the central issue is the ability of existing regulatory procedures, and especially the long standing system of external examiners, to protect academic standards in the face of pressures arising from increased competition and growing resource constraints (Alderman and Brown, 2008 and 2009a and b; Brown, submitted for review).
7. Most commentators believe that a rise to up to £5,000 would be unlikely to lead to much greater price competition.
8. The whole phenomenon has been usefully summarised by David Dill: *Because the new competitive market is characterised by inadequate and inappropriate information, an ambiguous conception - "academic prestige" - comes to represent academic quality in the public mind, which can lead to a price-quality association that undermines productive efficiency. The distorting influence of prestige in both the US and UK markets means that the educational costs for elite universities provide a "price umbrella" to the rest of the system and present spending targets of less elite institutions that wish to compete by raising their prices (Massy, 2004). Competitive markets thereby encourage an academic "arms race" for prestige amongst all institutions, which rapidly increases the cost of higher education and devalues the improvement of student learning. As noted in both the US and UK, an unregulated academic market can lead to a situation in which no university constituency – students, faculty members or administrators – has a compelling incentive to assure academic standards.* ***This is a recipe for a classic and significant market failure in which the rising social costs of higher education are not matched by equivalent social benefits*** *(Teixeira et al, 2004)* (Dill 2007:67) (present author's emphasis).

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