

Response to Scottish Executive Consultation Paper on: *Cross Border Student Flows: Higher Education Tuition Fee Levels*

(by Professor Paul G. Hare)

1. The above Consultation Paper (hereafter, the Paper) addresses a rather limited issue from a narrow perspective, namely how to ensure that the introduction of variable fees for undergraduate study in English universities should leave substantially unchanged the cross-border student flows between England and Scotland.

2. The proposed mechanism is to increase the fees to be levied by the Scottish Universities to make the net cost of a four- year degree in Scotland comparable with that of a three-year degree in England once higher fees are introduced in England. However, in line with Scottish Executive policy, Scottish students will still not pay the fees upfront; rather, the fees will be paid by SAAS and the student will build up a larger loan to be repaid after graduation. At the same time, the total funding for teaching available to Scottish Universities will not be increased by the new fee levels - there will simply be a transfer between the teaching grant currently paid by SHEFC to fees paid through SAAS, leaving University gross income unchanged. According to para.21 of the Paper, the Scottish Executive believes that it has already made provision to maintain the competitive position of Scottish higher education through additional allocations provided for in the recent Spending Review.

3. Disappointingly, the Paper reads like a very mechanical exercise, largely devoid of any attempt to stand back and think about the Scottish higher education sector in strategic terms, on the basis of sound economic and business analysis. Accordingly, the remainder of my response focuses on this fundamental lacuna, and outlines how I would have liked to see the subject of the Paper addressed more satisfactorily.

4. The natural starting point is with the assumptions of the Paper, namely:

- current cross-border student flows between England and Scotland (in both directions) are about right and should be maintained;
- in Scottish Universities, the number of places 'available' for Scottish domiciled students should not be disturbed by increased competition from English students;
- the right way to maintain the number of places for Scottish domiciled students is by setting the fee in Scotland at a level such that the four-year degree here incurs essentially the same fee as English Universities are expected to charge (on average) for their (usually) three-year degree.
- whatever happens to student flows, the teaching component of the gross income flowing to Scottish Universities (i.e. SHEFC grant plus fee income) should remain unchanged.

I see no real justification for wishing to adopt any of these assumptions. Let me explain my reasoning.

5. Whether we like it or not the world we live in is dynamic, competitive and ever-changing, and I see no reason to exempt Scottish higher education from this general observation. Yet the Paper appears to be based on the view that it ought to be possible more or less to 'freeze' the existing pattern of Scottish higher education, both in terms of total undergraduate student numbers and their breakdown between disciplines, between institutions. This has to be a serious error.

6. If Scottish HE is already world-class and competitive, as the Paper asserts, why is it correct for its scale to be held to its current level? Surely in most other lines of business, if we had competitive products or services we should wish to see significant expansion and development. Specifically, if our Universities allegedly offer a better 'product' than many English ones, why not seek to attract more English students, charging them a suitable fee for the privilege?

7. If there is more competition from English students, presumably this implies that some relatively weak Scottish students will be displaced by somewhat better qualified English applicants, some of the displaced Scottish students going down to English universities, some opting not to proceed to university at all. Is this a bad thing? Surely not. For the institutions themselves, the average quality of the intake would rise a little, a change that most would greatly welcome; and if a few more Scots enter employment earlier than they otherwise might have done, why is this to be regarded as a problem?

8. The proposed fee level to be set in Scotland does not in fact, contrary to what the Paper appears to claim, equalise the costs of getting a first degree as between Scotland and England. It fails to do so by neglecting the additional year of maintenance costs that students at Scottish Universities incur, and by neglecting the opportunity costs of the additional year they spend without a wage. Hence if the desire is indeed to achieve equality of costs (a so called level playing field), the Paper does not achieve it. Moreover, a serious economic analysis of fee levels would need to look both at the demand side of the market for higher education (which to some extent the Paper does), and at the supply side, by looking at institutional cost levels to provide different types of degree (and the Paper doesn't mention this aspect at all). As it stands, the Paper barely begins such an analysis, so a great deal of further work is needed to arrive at an economically sound fee/charging structure for undergraduates attending the Scottish Universities.

9. The Paper proposes a uniform fee for all Scottish Universities, all subject areas (except Medicine, on which see below). Taken together with the teaching grant from SHEFC, which does provide for some differentiation between broad subject areas, this nevertheless results in an implicit pricing structure for undergraduate teaching with the unfortunate and undesirable properties that: (a) high quality courses are neither identified nor rewarded financially - hence institutions providing such courses can only ration spaces by setting higher entry standards; but they have little motivation to expand such courses; (b) poor quality courses, probably led by less qualified and less costly staff, can turn out to be profitable. Hence in so far as the pricing structures set up economic incentives for institutions, there is a risk that this could be in the direction of fostering more, low quality provision. It is not obvious that this is a particularly rational way to maintain and develop a supposedly world-class higher education structure.

10. Medicine is singled out in the Paper as a subject meriting special treatment, with a higher fee level to be imposed in Scotland, again with the aim of equalising (on average) the fees associated with studying medicine in Scotland and England. Again, the higher fees will not be

permitted to affect the net revenues of Scottish Universities, and the rationale is just the same as for other subjects, namely to prevent Scottish students from being 'squeezed out' by stronger competition from in-coming English students. An additional rationale, in medicine, is provided by the observation that of graduates from the Scottish medical schools, a higher fraction of those domiciled in Scotland elect to take up employment in Scotland as compared to those domiciled elsewhere. Hence the proposed medical student fees are deemed to be beneficial to the NHS in Scotland by easing the recruitment problems currently being experienced..

11. Several important points can be made about this proposed policy on medical students. First, it is not at all obvious that medicine should be regarded as the only, or even the most important profession to be singled out in this way for special treatment. Having established the principle that one subject can be treated differently from the rest, why not extend the idea to other subjects? The argument of the Paper could thus be the start of a slippery slope. Second, if Scottish labour market considerations can be used as arguments in the debate about setting university fees, why not admit the argument more widely? For instance, in subject areas where Scotland has no shortage of labour, a lower fee could be set as we should not be concerned about attracting additional English students and we might wish to deter Scottish students from entering such subject areas. Conversely, in areas where Scotland has a shortage of workers, a higher fee could be set to discourage English in-comers. This seems to be a natural extension of the logic of the Paper.

12. Far more importantly, though, I believe that these very old-fashioned, manpower-planning type arguments are fundamentally misconceived. Governments and their agencies have an extremely bad record of predicting manpower needs very far into the future, and an even worse record when it comes to providing the 'right' numbers of people through active manipulations of the education system at various levels. Hence all the points made in my last paragraph should be set aside - such arguments are substantially unconvincing.

13. Instead, I would prefer to see employers deal with their manpower and recruitment problems through a combination of effective advertising and measures to improve wages and working conditions in those areas of the economy experiencing shortages or high turnover. These problems are not to be solved, in my view, through artificially distorting the recruitment practices of universities, as the Paper in effect proposes.

14. This leads me to my final set of observations, concerning the incentives faced by universities in deciding what subjects to teach, what subjects to scale down or expand, and what recruitment policy they should adopt. Some of what I could say on these matters extends well beyond the limited scope of the present Consultation Paper, so I shall attempt to limit my remarks to those issues that do relate to the Paper. I build on the points made above in para. 9.

15. At present, the Scottish Universities face constraints in regard to the Home/EU numbers they can accept. The Unit of Resource for each broad subject area is determined by SHEFC and is the same across the Scottish Universities, regardless of their actual costs; and funded student numbers are also determined by SHEFC for each institution. Hence aside from a limited opportunity to shift students between subjects with the same Unit of Resource, Universities are extremely constrained in their choice of activities. A rational university, finding that its actual unit costs for a given subject were below the Home/EU UoR set by SHEFC, would wish to

expand; and if actual costs exceed the relevant UoR it should either contract entry to that subject area or find ways to cut costs. In practice, as I implied at para.9, the prevailing constraints imposed by SHEFC might inhibit a high-cost, high-quality university from expanding even where there is strong demand from well qualified applicants, and might encourage a low-cost, low-quality one to do so. This is surely not the sort of outcome that the Scottish Executive would wish to encourage.

16. Overseas fees are a different matter, of course, since I imagine that in most cases these are at least as high as the relevant unit cost (though this point ought to be checked). And unlike with the Home/EU fees, it does not appear that the Executive wishes to stop institutions earning more money by recruiting additional overseas students. Hence for this group of students, the relevant costs and prices are more sensibly aligned.

17. To sum up, I find the Consultation Paper a seriously unsatisfactory document, far too redolent of the old-style thinking of central planning and the like, not especially appropriate for a modern, dynamic university system operating in a highly competitive international environment. Let me therefore conclude by stating my proposed alternative to the recommendations included in the paper:

(a) The Executive and SHEFC clearly have powers to set fees for entry to Scottish Universities, but the present idea of setting fees with reference to cross-border student flows, and with a view to keeping total institutional income constant, seems to me quite foolish, for the reasons argued above.

(b) Instead, as in England, institutions should be permitted to set fees up to the current English limit of £3000 per year (funded by SAAS for Scottish domiciled students, to maintain the Executive's political commitment to no 'up front' fees)), with the resulting additional income flowing to the institutions concerned. Institutions then have much more direct incentives to scale down or close courses that fail to attract enough students of acceptable quality, and to expand profitable courses. This is exactly how incentives in the system ought to be aligned, in my view.

(c) In the medium term, I would expect the initial limit on fees to be lifted, with considerable differentiation between the fees charged for different course by different institutions emerging quite rapidly. I would not, in this context, support any special provision for a higher fee in a specific subject area such as medicine, as proposed in the Paper; if a higher fee is justified, the market mechanism will quickly establish that.

(d) Scottish Universities should be encouraged to seek the numbers of students they can manage, from wherever they can find suitably qualified applicants. There should be no special preference or protection for students of Scottish domicile.

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