

A dual pricing mechanism: modelling the English higher education market?

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A dual pricing mechanism: modelling the English higher education market

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Markets in HE

Neoliberalism feeds a belief in the ability of markets to distribute goods and services in the most effective manner (Brown and Carrasso 2014, Molesworth et al 2010).

But the English HE system doesn't meet the conditions under which a market could work perfectly (Marginson 2013)

Despite this governments, in England as elsewhere, have nevertheless determined to make market-like interventions to inject competition into the system.

Markets in HE - English policy aims

2004 HE Act

variable fees; market in bursaries

2011 White Paper *Student at the Heart of the System*

encouragement for cheaper providers

encouragement for those with AAB+ to attend high-tariff institutions

for others, encouraged to go value for money

2015-16 removal of number cap

'liberating number controls' 'freeing up the market'

2016 White Paper and HE & Research Act 2017

English policy structure (since 2012)

Encouragement of new providers at lower price points - price and quality competition

Easier access to HE market (UT, DAP)

Easier 'exit' for failing providers

Uncapped numbers - demand led system

Fee/Loans income-contingent repayment system underwritten by the state

How a free market is supposed to work...

In general terms, a market may be described as the means by which sellers transact with buyers, exchanging goods or services for an agreed price. Roger Brown defines it thus:

... a means of social co-ordination whereby the supply and demand for a good or service are balanced through the price mechanism. Consumers choose between alternatives of offer on the basis of perceived suitability (price, quality, availability).

(Brown in Molesworth et al 2010:11)

In the context of higher education, the existence of a market would be signified by:

- freedom on the part of higher education providers to decide on their offer to student ‘consumers’ (disciplines and subjects, curricula, qualifications, modes of ‘delivery’);
- freedom on the part of providers to set a price for their services, which takes into account the cost of provision and the maximisation of profit;
- freedom of provider entry into the market without regulation, beyond the statutory regulations applying to any commercial organisation.

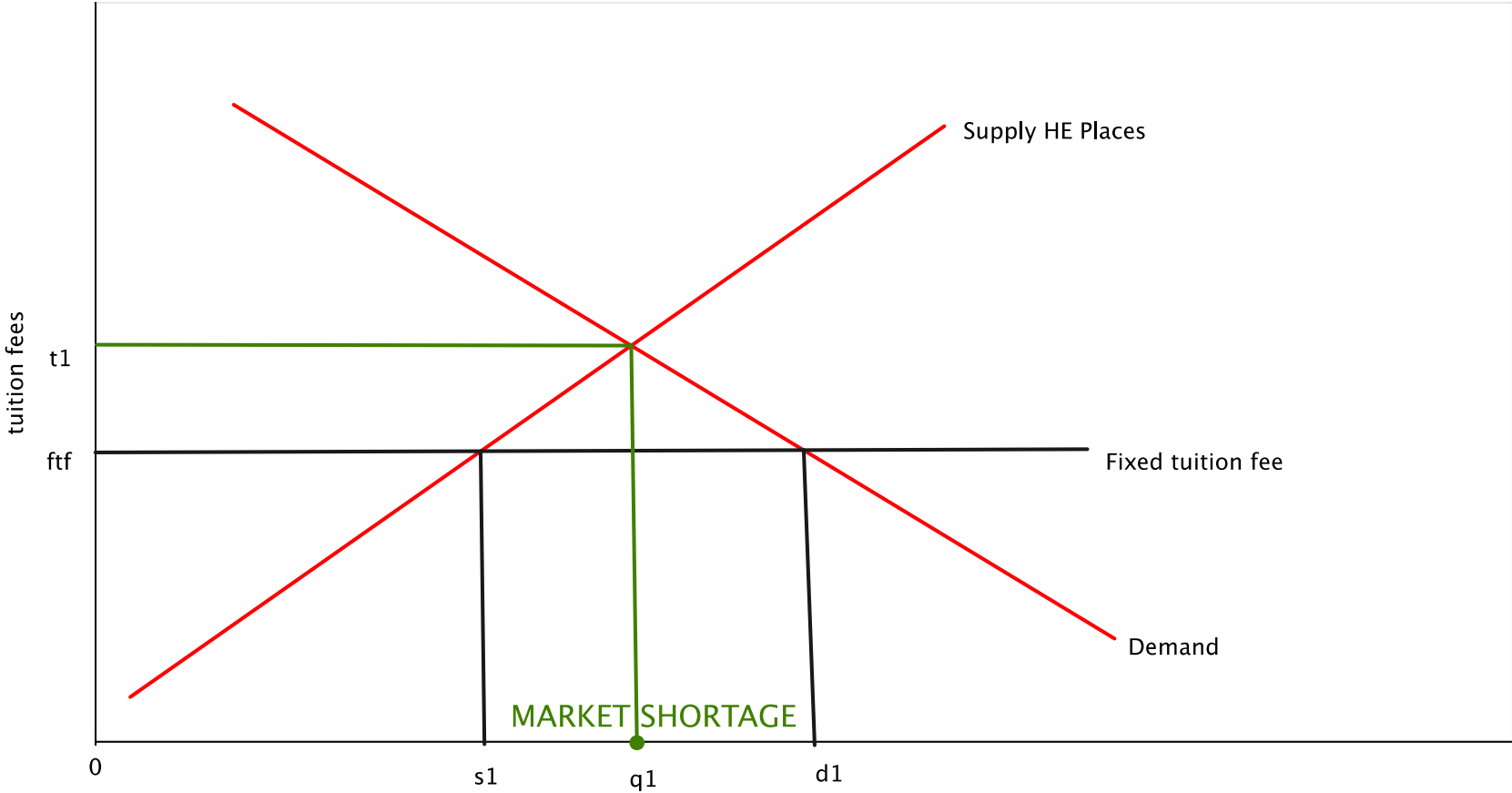
(Brown in Molesworth et al 2010)

Market failure: why we don't have perfect competition in English HE

Market doesn't set the price - equilibrium cannot occur with a fee cap:

- current excess of demand over supply - suggests fees too low
- suggests more places should be created (or fees rise)

Fixed tuition fee



Supply and Demand of University places

Why we don't have perfect competition in English HE

1992 Further and Higher Education Act

brought together 40 universities and 90 Polytechnics and HE colleges

133 HEIs in a unitary system

But highly differentiated by:

... history

... prestige

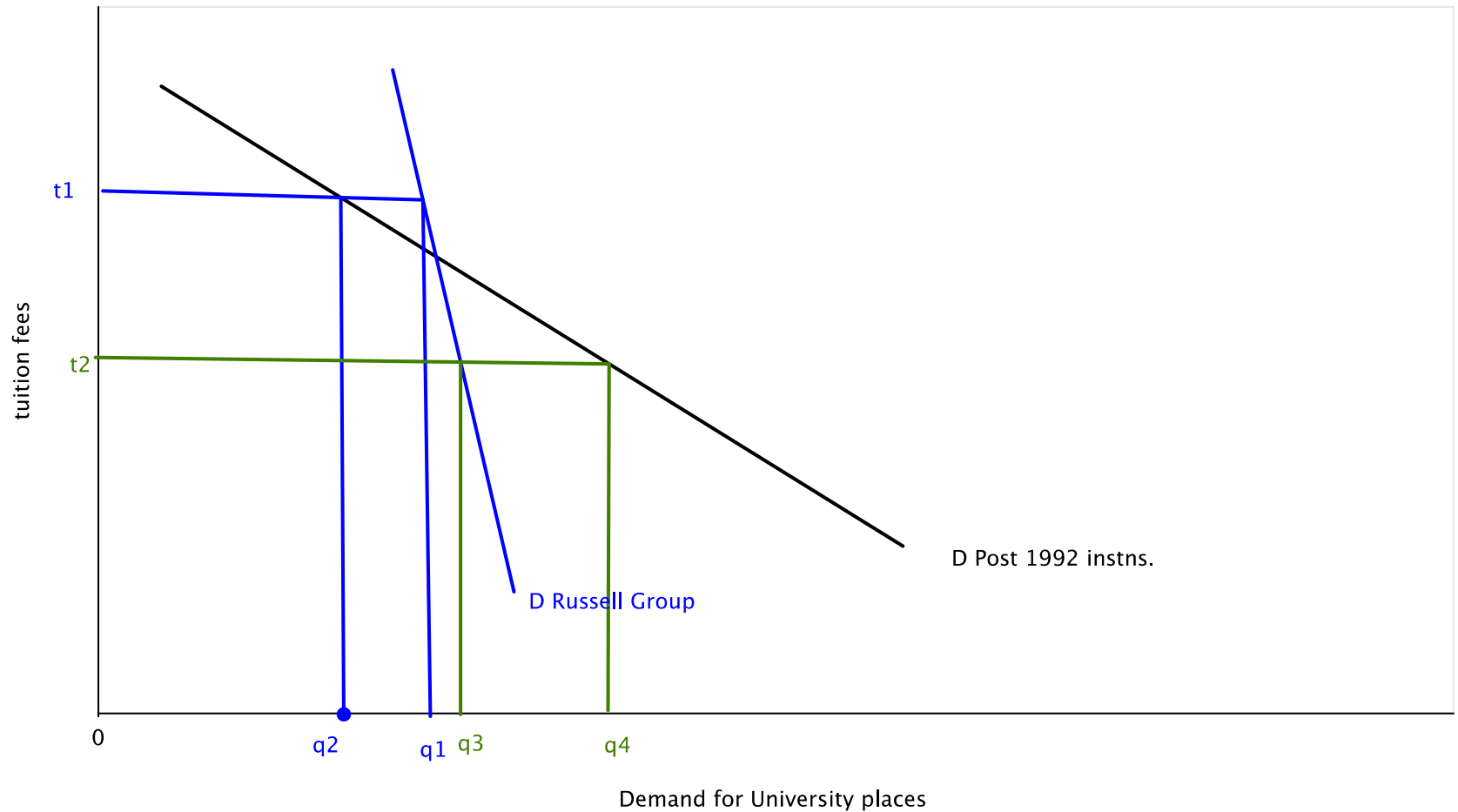
... access policies

... 'personality development model' which deters application from some groups (Gellert)

Market failure 2

- market for degrees not homogenous - as measured by demand (ie applicants per place at required entry level)
- differentiated demand results in a potentially different response to a change in tuition fee
- e.g. Russell Group could still attract applicants at a higher fee level..
- whereas if post-1992s raised their fees, demand would likely fall - we would have *differentiated demand*

Differentiated demand



Why is there no tuition-fee competition?

There is a '**dual pricing**' mechanism in this particular market

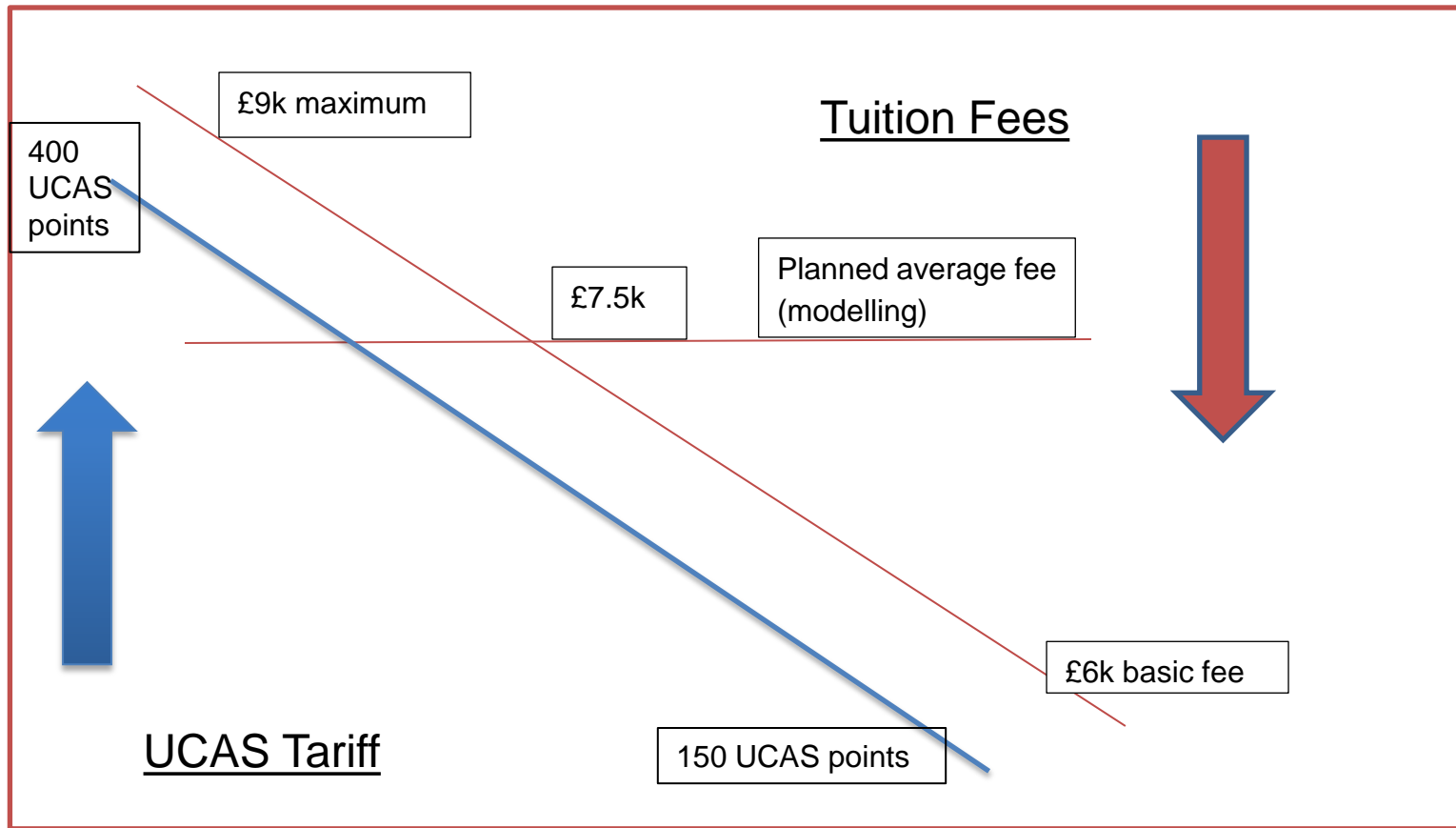
Tuition fees (maximum fixed by govt)

UCAS tariff (set by universities- created by the actions of supply/demand for university places)

Only the tariff acts as a price in these conditions

Govt wants fees to mirror tariff distribution

Dual pricing mechanism



Why a dual price mechanism?

- Maximum fees of £9k were set with an assumption of an average fee of £7.5k
- But average fees are higher than £7.5 (£8.6k) thus making loan repayment system too expensive
- AAB+ and extra places for those charging less than £7.5k were designed to open up a gap between the high tariff and low tariff institutions
- Thus dragging down the average fee by increasing supply

But that hasn't emerged yet - so....

- 2016 White Paper *Success as a Knowledge Economy: Teaching Excellence, Social Mobility and Student Choice* (BIS 2016) (HERA 2017)
 - TEF
 - Degree Awarding Powers (DAP)
 - University Title rights (UT)
 - Easier market entry for providers with lower student numbers & lower proportions of HE students (of total students)
 - Crucially, make it easier for existing HEIs to fail if they lose out to better or cheaper providers
 - overall should drag average fees down

Policy aims revisited: a fragmented market?

Enabling failure, encouraging competition at bottom end

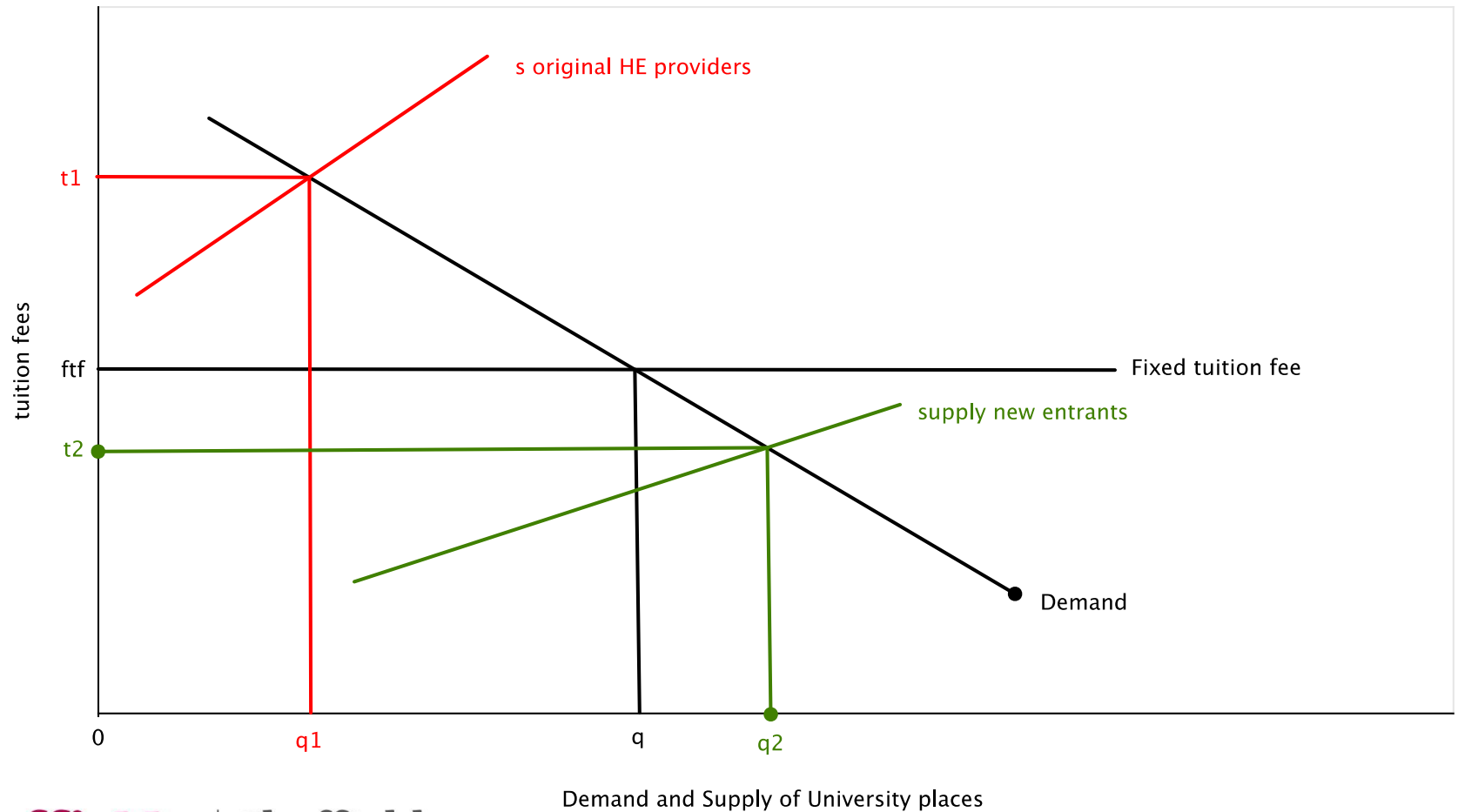
Thus creating a parallel dual price of fee and tariff:

400 pts = £9k (quality); 150 pts = £6k (value)

Original providers will retain tariff and max fee of £9k

New entrant providers will accept lower tariff and charge c£6k in the short term.

The Fragmented market



Summary

- Policy to create a differentiated dual-price mechanism market so consumers can instantly see the difference between 9k, 7.5k and 6k institution
- High-tariff institutions will be more easily differentiated from the mass
- Applicants from poorer backgrounds and other marginal applicants more likely to be attracted to lower price / lower tariff institutions, thus damaging for widening participation, fair access and social mobility
- Policy rhetoric of 'freeing' of the market is about reducing the pressure of loan servicing by the taxpayer than creating a 'freer market' *per se*: if this was the case they would take off the tuition fee cap.

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