Expensive machines

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To understand ‘marketisation’ I think it helps to understand ‘human capital theory’ (HCT) and the damage this ideology is doing to higher education. In a nutshell, proponents of HCT believe that education is an individual investment in their future earnings via an education commodity, be that a degree, an apprenticeship, or an online course. Individuals choose to invest because they benefit economically in the form of higher wages and should therefore also contribute to the cost. HCT claims to explain why some people earn more than others: they are simply individuals who make shrewd investments, and deserve the economic advantage that success brings in a meritocratic society. Conversely, low wage earners tend to be those who invested in the wrong kind of human capital, or did not invest at all.

This version of HCT became a key part of economics in the 1960s, via the work of University of Chicago neoliberals Theodore Schultz and Gary Becker. Their work is a culmination of a long counter-revolution, beginning in the early 20th century, which sought to neutralise the influence of Marxist social theory and socialist forms of economic planning represented by existing communism in Russia, China and elsewhere. At the core of neoliberal economic theory - also known as neolclassical economics - is the utility maximising individual. An extreme version of Jeremy Bentham’s utilitarianism, neoclassicals replaced the worker who creates surplus value for the capitalist - the core of most classical economics, not just Marxism, up to that point - with the consumer who creates value through their desires.

However, by abolishing the labour theory of value, neoclassical economists also sacrificed a theory of economic growth. This became a problem in the 1950s as Western governments became increasingly anxious about Russia’s growing economic, scientific and military power. Rather than seeking the origins of growth in a single factor, labour, a new generation of macroeconomists looked for explanations in ratios of productive inputs, which is to say improvements in the productivity of labour, land or capital. The idea in what became known as ‘growth accounting’, as Elhanan Helpman explains in the aptly titled *The Mystery of Economic Growth*, is that the growth of output can be ‘decomposed or broken down into components’ that can be attributed to the growth of inputs (1).

Something odd happens. Analysing national examples, macroeconomists find a ‘residual growth rate’ that cannot be attributed to labour, land or capital. This residual growth rate is attributed to something called ‘total factor productivity’, which comes from a general improvement in the productive capacity of a particular society, outside the production process. This general improvement essentially comes from ‘knowledge’ and is developed through education and scientific innovation. So HCT also appears in macroeconomic theories of growth as something that individuals or governments can invest in to boost national productivity.

However, by alienating productivity from the labour process - which, for Marx, was the ultimate source of economic growth - macroeconomists reach a bizarre conclusion. Human capital becomes something that can drive growth of its own accord. ‘Skills-biased technical change’ (SBTC) theorists like Daron Acemoglu come to believe that education ‘induces’ firms to invest in fixed capital and technology, because skilled workers are more productive and therefore produce economic growth. As Acemoglu claims, for example, the huge rises in economic growth seen in the 20th century are ‘likely to have been a response to the rapid increase in the supply of skills during the past several decades’ (2).

Meanwhile, microeconomics went through another revolution. In the 1950s, economists like Herbert Simon began to adapt the rational choice model at the heart of neoclassical utility theory to the realities of human action. Human beings rarely have access to the perfect information needed to make the cost-benefit analyses assumed by utilitarianism. Instead, they rely on ‘heuristics’, which may or may not lead to optimal economic outcomes for both individual and society. In the hands of behavioural economists like Richard Thaler and Cass Sunstein, this became a full-blown political theory, ‘libertarian paternalism’ in which companies, institutions and governments are encouraged to ‘nudge’ individuals towards ideal economic outcomes, on the basis they cannot do so themselves (3).

II

We can see how all of this translates to policy by looking at higher education. In the 1960s, we see in the Robbins Report a push to expand participation, funded by the state. The Robbins Report is explicit in its purpose to ‘maintain Great Britain’s material position in the world’. The influence of HCT is also clear:

If productivity is to advance at anything like the rate now deemed desirable there is a strong presumption that a substantial increase in the proportion of the population that is both skilled and versatile will be necessary. And in modern societies the skills and the versatilities required are increasingly those conferred by higher education. (4)

The Report recommended making room for a threefold increase in student numbers in the decades that followed, which it noted may have been a ‘conservative assumption’. They were right. By 1970/1, student numbers had already doubled to 457,000. This represented a ‘Higher Education Initial Participation Rate’ (HEIPR - an estimate of the likelihood of a young person participating by age 30) of about 8 per cent, which rose to 19.3 per cent in 1990 (5). A true believer in the ‘knowledge-driven economy’, Tony Blair wanted this participation rate to reach 50 per cent. This was achieved in 2017/18. But at what cost?

It was achieved by realising HCT in practice. By the mid-90s, expenditure on UK HE had risen in real terms to just over £7.1 billion, mostly driven by student maintenance grants (6). The 1997 Dearing Report was commissioned to address a funding crisis, which had seen a student numbers cap introduced to stop funding getting out of control, and funding for higher education institutions flat-lining. Not wanting to see a crisis go to waste, New Labour used this context to introduce tuition fees, and with it, the idea that higher education is an individual investment in human capital.

By the time the next crisis occurred, this time an external one - the collapse of the global economy - students were contributing £3,000 a year to the higher education costs. To cover the increased cost of tuition and maintenance - the grant was abolished in 1999 - New Labour had also introduced the ‘income-contingent repayment’ (ICR) loan. So, when David Willetts arrived in 2010 as the Tory-Lib Dem coalition’s universities minister, he was able to raise ICR-backed fees to £9,000. By shifting responsibility for funding to the individual, and the consequences of state borrowing to back student loans and cover their losses, he insisted that he was ‘saving’ higher education from austerity.

Eventually, however, Willetts’s ‘fiscal illusion’ became unviable (7). in 2018, the Office for Budgetary Responsibility changed the rules for ICR loans, meaning that the write-offs are now accounted for in the present budget of the Department for Education (DfE). Enter another financial crisis, this one caused by a global pandemic and accompanied by more bailouts, and you have a situation where higher education is once again fair game for radical reform. And, yes, you guessed it, these reforms will take it even further in the direction of HCT.

III

For today’s policy makers, the problem with higher education is that it doesn’t provide ‘value for money’. For individuals, much of it does not provide the economic returns to justify such investment, which for English undergraduate students can reach £50k. For the taxpayer - which is really to say, the government - it is not providing the economic growth benefits promised by HCT. All of this can be traced, the Tories think, to students studying the wrong courses at the wrong institutions. For some, it is also generally a matter of some people (ie working-class folk) who aren’t really graduate material, who would be better off doing something practical or not getting higher education at all.

After kicking the can down the road for a few years while they ‘got Brexit done’, the Tories finally got round to making some policy decisions last year. Taking on board suggestions made by the Augar Review, the DfE issued the ‘Higher education policy statement & reform consultation’ in February last year. This made some non-negotiable changes to the terms and conditions of new loans (Plan 5, beginning 2023/4 academic year), as well as some suggestions for further reform which were up for consultation, the responses to which are currently being considered.

The non-negotiable changes are essentially designed to bring down the cost of the student loan system, which, through the proportion of loans not paid back, will soon exceed £20bn per year. As noted aove, this cost is now accounted for in the present, and is now therefore competing with schools and other forms of post-compulsory education for DfE funding. Using its controversial right to change the terms and conditions of loans, the Government has for Plan 5 borrowers lowered the repayment threshold from £27,295 to £25,000 and extended the repayment period to 40 years. This will return another 24 pence per pound loaned for the Government in the future (8).

Alongside other tweaks, such as lowering interest rates - which actually makes the system less progressive as the highest earners no longer subsidise lower earners by paying more back in than they borrow - the other significant change is to freeze tuition fees at £9,250. Like interest rates, this is sold as something progressive, but it is actually key to the Government's new interventionism with regard to higher education. Given the extreme inflation that universities face, freezing fees is essentially a funding cut. Ostensibly, the idea is for universities to manage this reduction via 'efficiency savings', which the DfE notes they managed to do 'in the adversity of the pandemic'.

However, in the background, this gives the Government, via the new 'independent' regulator, the Office for Students (OFS), the ability to nudge and discipline universities into aligning with its wider economic aims. The shortfall will be made up under certain conditions by direct funding via two streams: an increase in the teaching grant, and a new 'strategic priorities grant' (SPG). The latter is, among other things, being increased to support 'high-cost, high-return subjects, such as sciences, medicine and engineering' while most of the former is being used to support provision 'where cost is greater than the amount received as tuition fee income' (9).

Supporting this is a selection of sticks, and more nudges aimed at students. The sticks are the OFS's regulatory powers, which enable it to enforce a set of minimum standards on universities registered with it. These standards include student outcome metrics, including that a minimum of 60 per cent of students go on to further study, professional work, or other positive outcomes, within 15 months of graduating. Enforcement tools include, in the most extreme cases, the withdrawal of access to student fee loans, OFS grants, and degree awarding powers (10).

On the student side, the OFS says it is 'determined to improve the quality of information available to students'. A major part of this is revamping the Unistats website, which tells prospective students about courses and institutions they are thinking of studying and turning it into an interactive nudging tool. Its replacement, Discover Uni, now tells you how much you will earn if you graduate with a particular degree from a particular university, as well as the likelihood you will end up in a relevant, skilled occupation (11). The OFS is clear that this is based on the 'latest thinking on behavioural science'.

At the heart of all this is a weaponised spreadsheet, the Longitudinal Education Outomes (LEO) dataset, which connects an individual's education data, including information about their student loan repayments, with employment benefits and earnings data. From this, the Government can now finally calculate the return on investment for specific courses at specific institutions. The results are bad for Arts, Humanities, Social Science and Media subjects, which tend for the most part to generate earnings for graduates that are lower than the repayment threshold and average non-graduate earnings. Thus, the Government can say they do not offer 'value for money' for individuals and the taxpayers (12).

IV

LEO, combined with policy changes threatened since the Augar Review in 2019, explains why universities are shutting down departments and courses, and making academics redundant, related to these academic subjects (13). The university carrots, backed by seriously large sticks, are extremely effective in the short term, particularly for vulnerable institutions. The student nudge will have a much slower influence. However, anyone who has worked with students since 2010 will know just how effective consumerisation has been. Students are already encouraged by fees and loans to demand value for money. Telling them some subjects pay less will undoubtedly have an impact on choices.

Aside from the reduction of education to a monetary value, the main problem with LEO is the significant lag that is built into it. The most up to date version of LEO examines outcomes for students from 2007/08, 2012/13, 2014/15 and 2016/17 academic years. The dataset before that, which informed much of the policy described above, examined graduates from the 2003/04, 2008/09, 2010/2011 and 2012/2013 academic years. This means the Government is nudging students, who won't graduate for at least three more years, to make investment decisions based on the economy before the pandemic, in some cases even before the 2008 Financial Crisis.

More importantly, the Government is encouraging universities to re-shape their provisions based on these outcomes. This in turn will shape the decisions of many students, simply because they will not be able to do the courses they want to at particular institutions. The reality, beyond the Government's propaganda about fairness, is that the Art and Humanities in particular will become once again elite pursuits. Because rich people don't have to care about outcomes, their family's social capital will ensure a nice job in a relevant or completely unrelated field - the BBC, or civil service, for example; their financial capital will support them through the unpaid art gallery internship; or the fact that they went to Oxbridge will get them a job wherever they like.

But the lag will lead to deep unintended social and professional consequences. As we know from the decision in 2004 to no longer make GCSEs in languages compulsory, decisions at one level of education change its shape at other levels. My mother used to be head of German at Coventry University. When the Government made this change, the number of kids taking German at GCSE halved (14). The reduction, as you might predict. was even more significant at comprehensive schools. The university, which is an ex-polytechnic, and will therefore admit far more comprehensive school leavers than, say, a Russell Group university, scrapped the German degree, along with many other Modern Foreign Language degrees.

Imagine what will happen if universities radically cut Arts and Humanities subjects provision. With schools already relentlessly aimed towards university admission, we can predict a fundamental reshaping of GCSE and A-level teaching. But what about the teachers? My mother had to retrain as an English Literature teacher. This was not too difficult because she already had a degree in English, so could do an MA to top this up. In those days a PhD was not a minimum requrement for university teaching, especially at an ex-poly. But what about new teachers? It takes at least eight years of non-compulsory education to become a university lecturer, at least four to be a schoolteacher.

There's nothing wrong with having data to plan education according to the needs of society and the economy. It makes perfect sense. This is exactly what we should be doing given the climate emergency we are all facing. What doesn't make any sense is to do this in a way that emulates a market, especially when real markets fail to allocate resources efficiently anyway. The supply and demand mechanism absolutely does not work with these kinds of time lags. The result will be absolute chaos. What we really have here is a quasi-authoritarian system, pretending to be grounded in freedom of choice, that is designed to further the objectives of an increasingly right-wing ruling class.

References

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4. The Robbins Report (1963): http://www.educationengland.org.uk/documents/robbins/robbins1963.html#06

5. The Dearing Report (1997): http://www.educationengland.org.uk/documents/dearing1997/dearing1997.html

6. Ibid.

7. This phrase is Andrew McGettigan's. Most of the analysis presented here is a simplification of work he has undertaken over the last decade or so. See Andrew's Critical Education Blog - https://andrewmcgettigan.org/- and his classic book, The Great University Gamble (Pluto Press, 2013).

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