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BRIEFING

Transforming Higher Education

By Terence Kealey

The best universities in the world today are the independent universities in America. The gulf between them and the state-funded universities in equally rich countries such as France, Germany, Italy, Japan or South Korea (where there are few independent universities of note) is so huge that the lesson cannot be avoided: universities need independence to flourish. It is interesting that the intermediate group of universities (in terms of quality) are those in Britain and Australia where the universities, though funded and over-regulated by the state, nonetheless retain significant autonomy¹. A recent Organization for Economic Co-operation and Development (OECD) systematic study of schools globally showed that the more autonomous they were, the better they were, and a review of universities globally reveals the same message. Our aim therefore must be independence.²

Even the European Union (EU) agrees, and the Commission recently reported that American universities were better than Europe's because: "European universities generally have less to offer and lower financial resources than their equivalents in other developed countries, particularly the USA... American universities have far more substantial means than those of European universities — on average, two to five times higher per student. ... The gap [between the US and EU expenditure] stems primarily from the low level of private funding of higher education in Europe".³

The contrast with the independent American universities is almost painful, and has indeed been felt acutely in the UK. It is significant that the first obvious rebellion against the UK Government's Higher Education (HE) agencies came from the London School of Economics (LSE), the majority of whose students come from abroad and thus pay full fees — which has conferred a rare independence of spirit on it. In 2001, infuriated by the inspections of the Quality Assurance Agency for Higher Education (QAA) under the regime of John Randall (its then Chief Executive), the LSE threatened to leave the system because the QAA had "infringed academic freedom and imposed its own bureaucratic and pedagogic agenda". Whereupon the Government

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backed down, Randall was replaced by Peter Williams, and a new, acceptable, 'light touch' was introduced. Furthermore, it was highly significant that the pressure for 'top-up fees' in 2004 came from the universities. They were determined on higher income, and they saw the students as the only source left to them. In other words, the UK universities are determined to follow the US, not European, route — which is good. To further improve the universities, however, they need to be fully independent. The following is a strategy that would achieve this result.

First, the Higher Education Funding Council for England (HEFCE) should be abolished. The research part of the HEFCE budgets should be transferred in total to the Research Councils to ensure that all research grants carry full overheads, which should in future accompany each grant. This is a process on which the Government was already embarked by 2005. The research assessment exercise should therefore also be abolished — it will be unnecessary because dual-funding will have been abolished (thus freeing the £10 million cost of each round for more useful activities).

The remaining part of the HEFCE teaching fund should be transferred to the Student Loans Company (SLC), to add to its current budgets for grants and loans, in order to turn the Student Loans Company into the Needs Blind Admission Agency. In America, the leading independent universities operate needs blind admissions, by which students are admitted on academic merit alone. Those who then need financial support are offered it on a personalised bespoke basis as a mix of grants and loans funded out of endowment income and fee transfer income (some of the fees of rich students being used to support poor ones). The new Needs Blind Admission Agency should operate nationally on that basis, being represented by officers on every campus.

Initially, therefore, under the new system by which HEFCE money no longer goes directly to the universities but, rather, follows the students to pay the universities' full fees, the total sums of government money going into HE will not change, so the sector need not suffer. But the money will be targeted more effectively, with rich students getting less support and poor ones more than they do currently.

With time, however, the universities should be allowed to raise their fees — but only as quickly as they can create their own endowment and scholarship and grant and loan funds to continue to offer needs blind admissions to all. Government, via the SLC, should remain as a major loaner to students, because it is hard for students to raise loans in the market place without secure collateral (commercial loans for students might be ruinously expensive); but the universities should be further encouraged into growing their endowments to support needs blind admissions under a system of higher fees.

The UK universities should not aspire to survive on fee income alone, because no student in America, not even at the Ivy League, pays anything like the full costs of his or her education. Instead the Ivy League, like mainstream universities everywhere, pays its students to attend. Consider what so-called full fees would be in Britain. Since the top public schools charge about £15,000 per annum for day pupils, people assume the universities would do much the same. But public school staff are primarily teachers, and they dedicate most of their time either to teaching or to providing pastoral activities including



sport and drama. By contrast, academics at the Ivy League are primarily scholars. They spend most of their time researching. It was Isaac Newton who explained that he made his discoveries “by always thinking upon them, I keep the subject constantly before me” and no leading scholar today would work with any less of a focus. Such concentration allows little time for teaching or pastoral work. And because, in addition to teaching, the universities also operate the whole engine of independent examinations, real staff/student ratios at a leading university need to be about three times greater than at a leading school: that is, costing about £45,000 per annum in the British context (and even more in the US, where academics are actually paid properly).

Since no student in America pays those fees, how do Harvard, Yale, Princeton and Stanford manage? They manage, of course, by their endowments, which are truly huge. Yale, Princeton and Stanford each sit on about \$10 billion, while Harvard sits on \$20 billion. There are 30 universities in the US with endowments in excess of \$1 billion — and surveys show that the quality of a university is proportional to its endowment. Overall, therefore, the extraordinary performance of the American Ivy League is unsurprising — it is awash with money.

The tragedy in Britain is that, on average, each student’s higher education costs a total of about £15,000 per annum, consisting of £5,000 pa in living expenses and £10,000 pa in tuition fees and research grant income. It might seem odd to include research grant income in a student’s costs but, as explained above, research grants are paid to universities to retain the quality of scholars a university needs. But £15,000 pa is manifestly not enough to provide a proper university education, and even though the top universities are spending up to twice as much as that per student, the bottom universities are spending half. This is why the universities must build up their endowments.

It will be a challenge. To accumulate the necessary endowments — say, £5 billion over the next 10 years — Oxford and Cambridge would each need to raise £2 million a day over the next decade. London would need to raise £5 million a day. Obviously those targets are unattainable, but moving away from the current block grants to a system of, effectively, topped-up vouchers, will create a climate by which potential donors will not feel they are gratuitously supporting government-supported institutions but, rather, are supporting independent bodies.

Independent bodies are much more likely to attract private donations than dependent ones, as was illustrated by an episode from the history of the Royal National Lifeboat Institution (RNLI). That was created independently in 1824, but after thirty years it fell into debt. So in 1854 the RNLI accepted £2,000 pa in government subsidies. Those rose over time but, with every pound sterling donated by the government, the rate of voluntary donations fell by more than a pound; private individuals would not support a state-supported institution. Moreover, the Government’s bureaucracy damaged the actual service of lifesaving. So in 1869 the RNLI cut loose — to flourish ever since. Today it is the twelfth-largest charity in the UK, with an annual income of £128 million. It maintains 320 lifeboats, it rescues some 6,000 people a year, and the seas off our coasts are safer than those maintained by other governments’ coast guards.



Thus we see that private individuals tend to support only autonomous bodies. But to encourage fund raising, we will have to change the culture not only of potential donors and governments (intensive tax breaks would help) but also of the councils of the universities themselves. In America, a person becomes a trustee or council member of an independent university only after he or she has already made a substantial donation. John Blundell of the *Institute of Economic Affairs* notes that trustees of independent American universities observe the 4 Gs of 'Give, Get, Govern or Go'. But in Britain most trustees or council members behave as members of an audit committee, pontificating on the vice-chancellor's faults. The councils should, instead, be packed with alumni, who will want to raise the reputation of their alma mater's degrees (and who will retain a residual respect for the vice chancellor).

To conclude: it is not generally known that all British universities were independent until 1919. But in 1919, after four years of the Great War, inflation had destroyed their investments (many of which were in fixed-interest vehicles) and four years of no student fee income had destroyed their cash reserves. To avoid bankruptcy, the British universities were forced to apply for Government assistance, which originally came as grants administered by the University Grants Committee, but which has since mutated into effective nationalisation. Consequently, the universities have been degraded. Their independence and their endowments need to be restored, but that should be done gradually by allowing them to raise their fees to those who can afford them and by encouraging them into fund-raising to help those students who need support.

Endnotes:

¹World University Rankings. Times Higher Education Supplement November 5 2004, No 1665.

²<http://www1.oecd.org/publications/e-book/9603071E.PDF>

³Commission of the European Communities 2003 The Role of the Universities in the Europe of Knowledge. http://europa.eu.int/comm/education/doc/official/keydoc/2003/univ_en.pdf

⁴David Swensen 2000 *Pioneering Portfolio Management* Free Press New York

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