The 2010 Comprehensive Spending Review and Higher Education

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The 25% reduction by 2014-15 of the Department for Business, Innovation and Skills' resource budget will hit higher education (HE) most of all. 65% of these savings will be delivered by reforming the funding of higher and further education (BIS, 2010). The impact of the CSR on HE is inextricably linked to the Browne review of HE funding (Independent Review of Higher Education Funding and Student Finance 2010) and the Coalition government's response to it. Browne proposes radical reforms affecting the character and purpose of HE.

Following Browne's recommendations, the government is withdrawing the funds it gives universities for teaching most of its undergraduate courses but will continue to subsidise science, technology, engineering, and mathematics (STEM) courses at a reduced level. The lost income stream will be replaced by higher tuition fees raised from £3,290 to a maximum of £9,000 from 2012/13. Students will be able to repay their fees on graduation via income-contingent student loans, which will remain heavily subsidised by the government. In future, therefore, the majority of arts, humanities, and social science courses will receive no direct government funding and will be financed purely by tuition fees.

This means the overall HE resource budget, excluding research funding, will be cut by 40% or £2.9 billion and reduced to £4.2 billion by 2014-15 (BIS,2010). However, this £4.2 billion will have to cover £150 million committed to a 'National Scholarship Fund', as well as spending on student grants (but not student loans). Consequently, teaching funds to universities could be reduced by at least 60 per cent by 2014-15, representing a fall of about £3 billion.

Wisely, the government has maintained and ring-fenced the UK's annual research budget of £4.6 billion a year in cash terms until 2014-15, representing a 9% cut in real terms. However, it is likely a greater share of research funds will be channelled into STEM subjects, again at the expense of the arts, humanities, and social sciences.

The cuts facing HE form part of more longstanding HE policy agendas associated with its expansion. The first policy thrust has been to shift the costs of HE away from government and taxpayers so that more of them are borne by students and/or their parents. Underpinning this 'cost-sharing' agenda (Johnstone and Marcucci, 2010) are the private returns to HE, and the notion that those who benefit financially from HE should pay for HE. Indeed, all major reforms of student funding introduced since 1990 have sought to restructure the balance of private and public contributions to HE.

The second agenda has been the quest to create a market or quasi-market in HE. User choice and provider competition were central to the Labour government's reform of public services, including in HE. The Coalition is attempting to complete this unfinished agenda. Their cost-cutting reforms aim to increase competition between universities through variable tuition fees, and by giving students what is in effect, an educational voucher in the form of student loans – loans akin to hire purchase agreements. So students enjoy the benefits of HE, free of charge, while studying, but pay for them later.

Consequently, the bulk of universities' money will follow the choices of students, including those of part-time students who for the first time will qualify for tuition fee loans, a welcome development. Theoretically, consumer demand will determine what is offered by universities. Students will have greater choice as new providers including private universities and Further Education (FE) Colleges enter the market and compete by driving up teaching quality and driving down price through efficiency gains.

It is questionable though if choice and competition alone will drive up quality and drive down price. First, students have always been able to choose where to study, but their choices rarely follow the logic of economic orthodoxy and are unlikely to do so in the future. Secondly, all universities now charge the maximum tuition fee and it will be in their interests to do so in the future. They will need to charge a minimum of £7,000 just to recoup their lost government funding (IFS, 2010). Over time, it is likely that there will be little or no variability in fees. Thirdly, currently universities' income for teaching depends on their success in recruiting students. The mechanisms now used for funding teaching, however, provide both financial stability for the sector and a brake on public expenditure. Both would be at risk in a true HE market. In reality, so long as the government funds HE – be it through teaching grants to universities or financial support to students – it will have to control student numbers. Universities will not be free to enrol as many students as they wish, and student choice will be constrained.

It remains to be seen if these reforms will reduce either public expenditure or public borrowing. In cash terms, public expenditure will increase in this Parliament and into the next, following the introduction of the new system of student support. In the long term, the reforms probably will cost more than they save (Thompson and Berkhradnia, 2010). Public borrowing will look as if it has fallen because government teaching grants to universities count as public borrowing, but loans to students do not.

The ideological and political ramifications of the reforms are just as significant as their economic consequences. Implicit in this strategy is a radical revision of the purpose of HE. Up until now, HE has been seen by governments as a public good, articulated through educational and academic judgments, and financed mainly by public funds. HE's mission has increasingly been aligned to the economic health and well being of the nation. Consequently, HE has been considered as an appropriate investment for the state on behalf of its citizens, irrespective of subject discipline. Now large sways of HE are no longer to be perceived of as a public good but as a private investment. Humanities, arts, and social sciences, unlike STEM subjects and research, apparently have no public utility. Yet, our political leaders have enjoyed and transferred the benefits of the arts, humanities and social sciences - only one member of the Cabinet studied science as an undergraduate and well over a quarter studied PPE. According to UNESCO, the creative and cultural industries are the UK's fastest growing sector, and the UK is the world's biggest single exporter of 'cultural goods' (British Academy, 2010). Effectively, however, these non-STEM subjects have been privatised, putting their future at risk outside of elite universities.

This is indeed radical change; one heretofore unthought-of, even in the United States. The shift of the public financing of institutions to the public funding of student support, arguably, is not cost sharing; it is cost transfer and cost cutting on a massive scale. The advocates of cost-sharing always have argued that financial contributions from students should supplement and augment governments' contribution to HE, and never replace government revenue. The way forward is a more equitable distribution of HE costs between the beneficiaries which like most other countries including the US, acknowledges both the private and public returns of HE.

Significantly, HE will remain free at the point of access and students will get a generous package of financial support. It is impossible, however, to know what impact, if any, higher fees and student loan debt will have on student behaviour, their HE choices, and their perceptions of the affordability of HE. Nor can we assess their effects on HE access and participation, especially for those from low-income backgrounds who are being asked to speculate financially on an imagined but uncertain future.

What unites all in government and the HE sector is the desire for a vibrant, intellectually challenging, and economically stable HE sector. But this new very different model of HE, is one that could rock its foundations and alter its character. It appears to value only the private economic returns of HE, rather than cherishing universities as centres of teaching, learning, and knowledge creation. Some would argue it is an ideological assault on HE, others that it will deliver a better deal for students, for graduates, and for universities. Unboubtedly, these changes herald a redefinition of HE and the retreat of the state from financial responsibility for it. They boost HE's private-good functions at the expense of the public-good function and reveal a policy mind set where the public and private benefits of HE are a zero-sum game. There will be short-term fiscal savings which are needed but will these be at the expense of the longer term effects on social equity and universities as public, civic, and cultural institutions? Universities will adapt to these changes and survive these cuts but for whom, and for what?

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