

## **Public-Private Substitution in Higher Education: Has Cost-Sharing Gone Too Far?**

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### **Abstract**

This paper looks at the current challenge facing higher education by exploring the historical relationship between higher education funding and long economic cycles in the UK, USA and France. It examines the consequence of the transformation of public-private income in higher education that followed the 1970s downturn, questioning whether the rise of private resources acted as additional or substitutive resources for public spending. The paper suggests that there is a risk that the cost-sharing strategy could be turned into a policy of public-private substitution of funding and provision, leading to a transfer rather than an increase of resources with strong implications on quality and equity. However, the Kondratiev cycle suggests an alternative route by designating the impact of the 1970s economic downturn on education as unique. Previous economic crises were contemporary of accelerations of public funding towards education which in fact contributed to economic recovery. The current crisis could represent an opportunity to revive counter-cyclical policy by looking not only at efficient public spending but also at developing fairer taxation. A revival of public funding complemented by an additional rather than substitutive diversification of income would rebalance the public-private structure of funding and drive a sustainable higher education system capable of playing a key part in these counter-cyclical transformations.

### **Introduction**

This paper offers a historical lens to analyse the current challenges and prospects of higher education funding. It identifies a long-term correlation between public funding devoted to higher education and long economic cycles in the United Kingdom (UK), United States of America (USA) and France, which explains the changes in the public-private income structure since the economic downturn of the 1970s. The paper explores whether the rise of private resources is an additional or substitutive income and identifies a trend towards a public-private substitution of funding (especially in the UK and France). The paper then explores the origins and effects of this aggregated trend by comparing and contrasting the dynamics of growth of fees and other private resources and examines their implications for total resources, equity and quality. The analysis then considers future developments in the post-2008 era. The following section looks at the current policy combining an acceleration of private funding with market provision. An alternative route is then proposed based on the counter-cyclical development of public funding in higher education. This is justified by the idea that the lens of the long economic cycles shows that the low taxation response to the 1970s crisis was unique, in the sense that previous crises coincided with (and were indeed resolved by) a revival of public funding that jointly addressed economic and social problems. This scenario envisages a reassessed articulation (rather than an opposition) between public and private resources contributing to driving a sustainable higher education system.

## **Economic cycles and public-private substitution of higher education funding**

The analysis of the trends and patterns on funding and enrolment at universities in France, the UK and the USA since the 1920s (Carry, 1999; Carpentier, 2004, 2006a, 2006b) is based on the collection and processing of historical data using the method of quantitative history. This method follows the principles of national accounting, which provide a stable frame to integrate financial and other data and allow comparisons across time and space (Marczewski, 1961). UK data are supplied for universities until 1994. Afterwards, data relating to advanced courses in polytechnics and advanced further education (they became universities after the 1992 Higher Education Act and are commonly called post-1992 institutions) are included. French and USA data relate to all higher education institutions receiving public money (public and private).

### *The historical connections and tensions between funding and access policies*

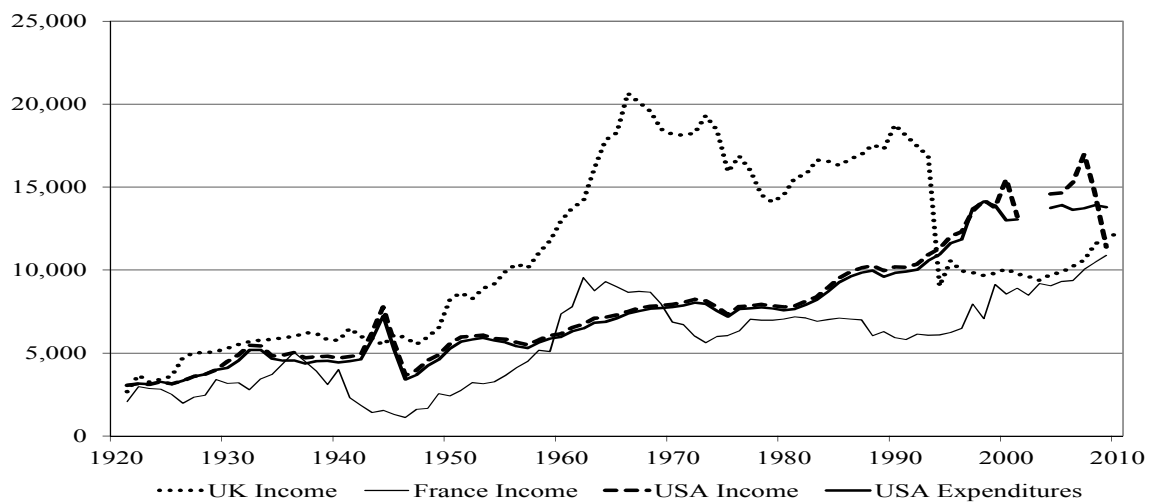
Before exploring and comparing the connections and tensions between funding and access, it is important to note that higher education systems experienced huge changes in scale and shape over the period. The age participation ratio in 1938 (the proportion of the age group attending university) was 1.5 per cent in England (Anderson, 1992, p. 16). By contrast, the initial participation rate measuring the number in the age group of 18–30 years who entered a higher education course reached 47 per cent in 2010 (DIUS, 2008). The initial participation rate in France was 45 per cent in 1995 (against 32 per cent in the UK) (Neave, 2003, p. 399) and has remained stable since then. Participation rates in the USA reached the threshold for mass higher education (30 per cent) in 1945 and the 50 per cent threshold for universal higher education as early as 1970 (Trow, 1974). The current figure is around 60 per cent, but it is important to keep in mind that it includes two-year institutions such as community colleges that are not considered as higher education in the UK and France and are therefore not included in their participation rates (NCES, 2010, p. 292).

Mobilising sufficient financial resources is clearly one of the 'issues to tackle in current mass provision before the next leap in participation rates to universal levels' (McNay, 2006, p. 12). Financial resources are crucial not only to expand enrollment but also to maintain quality and ensure that higher education contributes to equity that 'considers the social justice ramifications of education in relation to fairness, justness, and impartiality of its distribution at all levels of educational subsectors' (Jacob and Holsinger, 2008, p. 4).

There has been an overall increase in the expenditure per student in all three countries despite the rise of enrolment (Figure 1). Expenditure per student is higher in the USA than in France and the UK. The evolution of expenditure per student was linear in the USA, less regular in France and unstable in the UK. However, the virtuous growth of USA higher education has been challenged by the economic crisis (Figure 1). Although income per student fell post-2008, expenditure per student remained constant. This might have been because universities were drawing upon reserves and the long-term impact of this has yet to be seen. Whether this is a successful strategy will be examined later in the paper. A closer

look at the data shows that the slump was the consequence of the collapse of investment income of not-for-profit institutions following the financial crisis. It is also worth noting that the steep decline of the UK funding per student in 1993 was primarily due to the integration of post-1992 institutions' data (whose funding per student is lower than pre-1992 universities). Nevertheless, it is apparent that such a decline was already on its way in 1990 when the tensions between access and funding policies became visible. The mid-2000s shows a long-term improvement but the impact of the economic crisis remains uncertain.

**Figure 1 University income and expenditures per student (1990 Geary Khamis \$) 1921–2010<sup>1</sup>**



Overall, these fluctuations reflect periods of connections and tensions between funding and access policies that are at the core of current underfunding debates. In a context of a sustained expansion of enrolment since the 1960s, it is important to look at how the fluctuations of funding per student are influenced by changes in the level and composition of income available to the sector (in connection with long economic cycles).

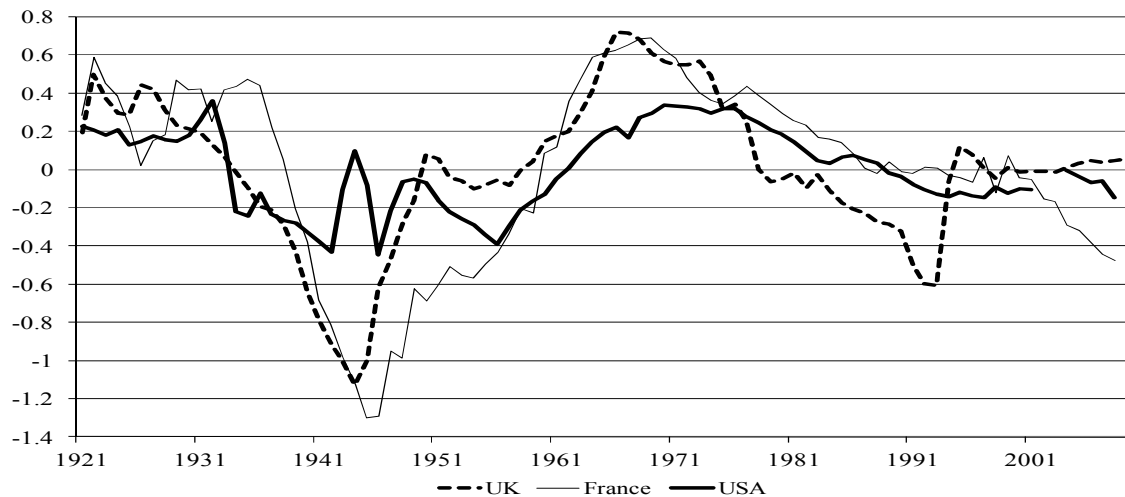
### Public funding in higher education and economic cycles: from fordism to neoliberalism

Current debates on austerity should be seen as part of a wider historical trend. A long-term perspective reveals a remarkable correlation between the historical evolution of public funding in higher education and Kondratiev cycles in all three countries (Figure 2). In the 1920s, Kondratiev analysed historical economic and financial statistics in major

<sup>1</sup> Financial series are expressed in purchasing power parity in 1990 Geary-Khamis USA \$ (PPP). PPP can be defined as a conversion rate that quantifies the amount of a country's currency necessary to buy in the market of that country the same quantity of goods and services as a dollar in the USA. Such a tool is necessary in order to give a comparative estimate of the value of educational expenditure eliminating differences in price level between countries. The PPP indices series are derived from Maddison's calculation of GDP at PPP US\$ (Maddison 1995, 2000) and updated (<http://www.ggdc.net/maddison>). The GDP at PPP US\$ was then divided by the GDP expressed in current US\$ to obtain the PPP index and applied to the expenditure series.

industrialised countries and identified a succession of 20-to-25-year-long phases of prosperity and depression. The cycle outlived its discoverer and in general, four long waves of approximately 50 years have been identified, each of them showing expansion and depression phases: (1790–1820/1820–1848); (1848–1870/1870–1897); (1897–1913/1913–1945); (1945–1973/1973–?) (Loucã and Reijnders, 1999).

**Figure 2: Fluctuation of public expenditure on higher education (1990 Geary-Khamis\$) (second order deviation from the regression curve) 1921–2009<sup>2</sup>**



The growth of public educational resources was substantial during the period of post-war prosperity, only to go into relative decline after the early 1970s economic downturn. The revival in public expenditure in the early 1990s in the UK was due to the sudden integration of colleges and polytechnics within the university system but the effect was temporary and the downward trend continued after this.

Changes in higher education can be understood as part of a wider trend that links the state and the cyclical transformation of the socio-economic system. While it is difficult to prove a clear causal relation, cyclical fluctuations in public funding in higher education may be connected to the development of the welfare state and its crisis. Regulation theory, which is the theoretical framework deployed here, has mapped this by identifying a specific post-war socio-economic régime driven by a virtuous cycle between mass production and consumption (Boyer and Saillard, 2002). This Fordist régime, based on Gramsci's concept of Fordism (Gramsci, 1934), was sustained by the translation of productivity gains into redistributive wage policies and public spending towards the social sphere of development

<sup>2</sup> A regression curve is the best-fitting curve drawn through a scatter-plot of two variables. It is chosen to come as close to the points as possible. A regression curve represents then the shape of the relationship between the variables (here the expenditure and the time) and the long-term trend if the series were regularly distributed. The deviations from the regression curve represent the cyclical fluctuations around the trend. Nine-year moving averages are sliding averages that smooth the data in order to ease the examination of the trend and changes.

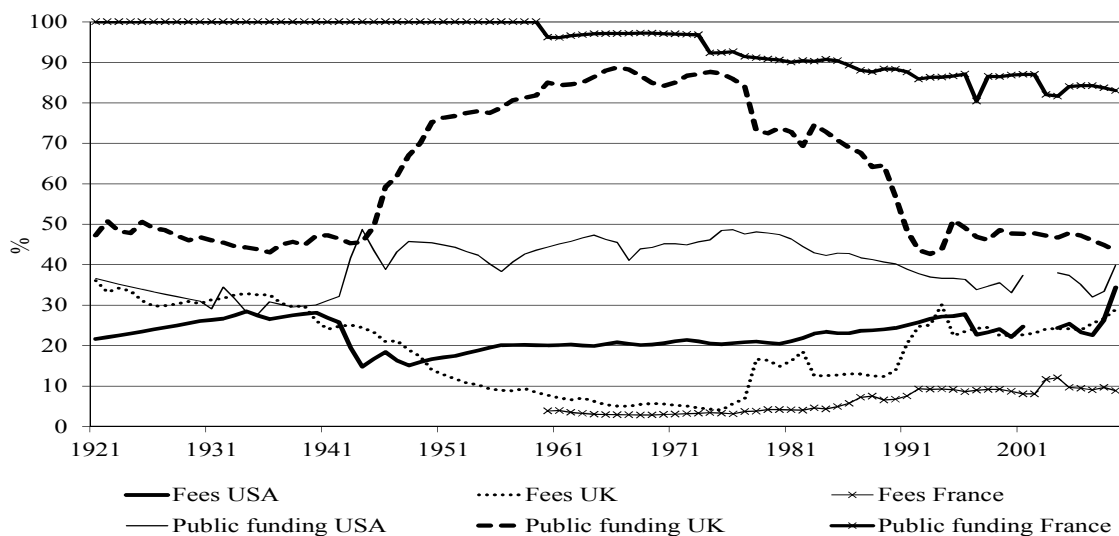
(including higher education). However, the Fordist régime did not survive the arrival of stagflation (combined economic stagnation and inflation) that characterised the downturn of the 1970s. Instead, the neoliberal response to the crisis reversed Fordism by limiting wages and taxation through a slowdown of public spending in the social sphere (including higher education).

Thus, the Kondratiev cycle, considered as the expression of the connections and tensions between economic and human development (Marx, 1894; Boccara, 1988; Fontvieille, 1990; Michel and Vallade, 2007), offers a wider lens to current policy debates. It questions whether the 2008 crisis is the continuation of the 1970s downward phase rather than the beginning of a new one (Carpentier, 2009). It also questions whether the current crisis is due to the fact that neoliberal policies' control on public spending went too far or not far enough. The following will look at the implications of this shift from fordist to neoliberal models for higher education. It will explore the ways in which the slowdown of public funding impacted on the level and structure of income available to the sector and to what effect.

*The transformation of the public-private income structure*

The impact of the fluctuations in public funding on the structure of universities' income has been substantial in the UK, important in France and limited in the USA (Figure 3). The Kondratiev cycle maps pretty well how the shift from a fordist to neoliberal régime impacted on higher education. This is demonstrated by the cyclical patterns of the public-private changes in the income structure of the sector. Although the substantial differences between the various institutions' funding structure must be kept in mind, the overall reliance of British higher education on public funding increased from 50 per cent to 90 per cent from 1945 to the 1970s crisis and has since dropped below its pre-war level at 43 per cent.

**Figure 3 Fees and public funding as a share of Universities' income, 1921–2010**



The share of upfront public funding is likely to drop further after 2012 and it is important to explore whether these changes in income structure matter. The capacity of this new funding settlement to drive a sustainable and equitable higher education system depends on the connections or tensions between the trends in public and private resources.

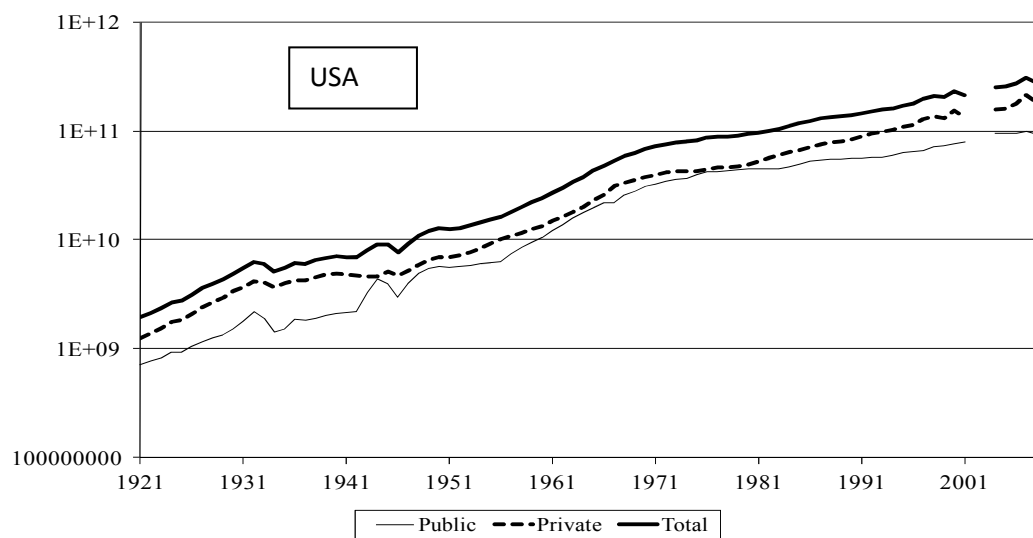
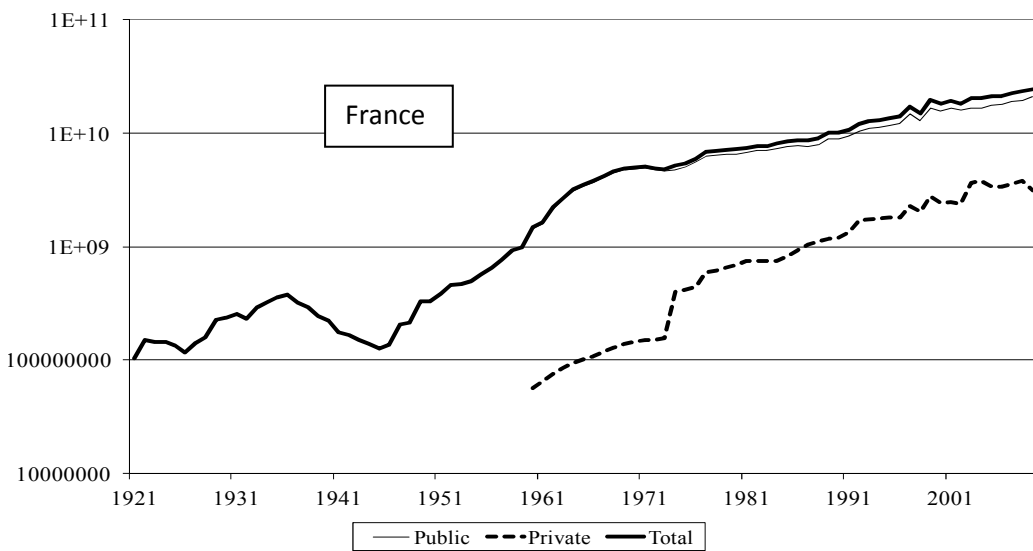
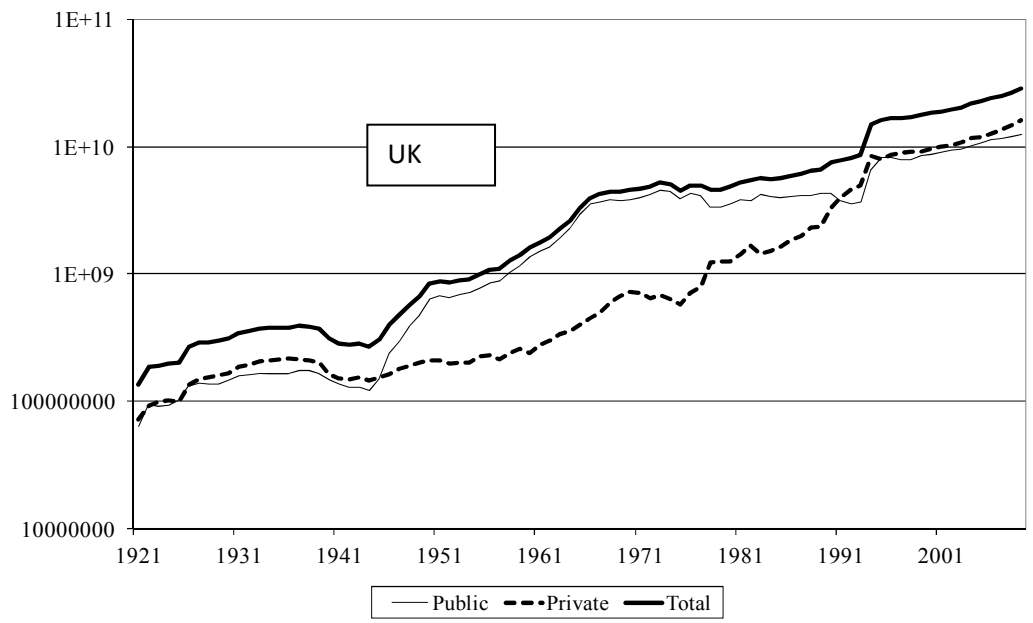
*Historical trajectories of public, private resources and overall income: substitution or addition?*

The ways in which the post-1970s slowdown of public funding and the re-emergence of private funding are historically articulated have key implications for global resources and potential effects on equity and quality. Have private resources acted as a cushion against public austerity (Williams, 1998, p. 93) or as additional income?

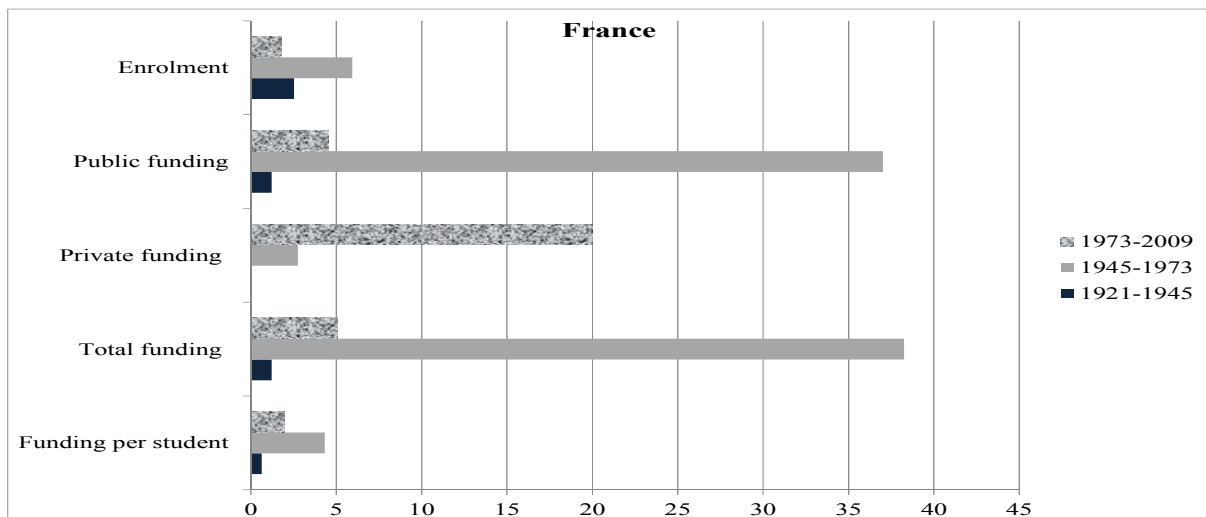
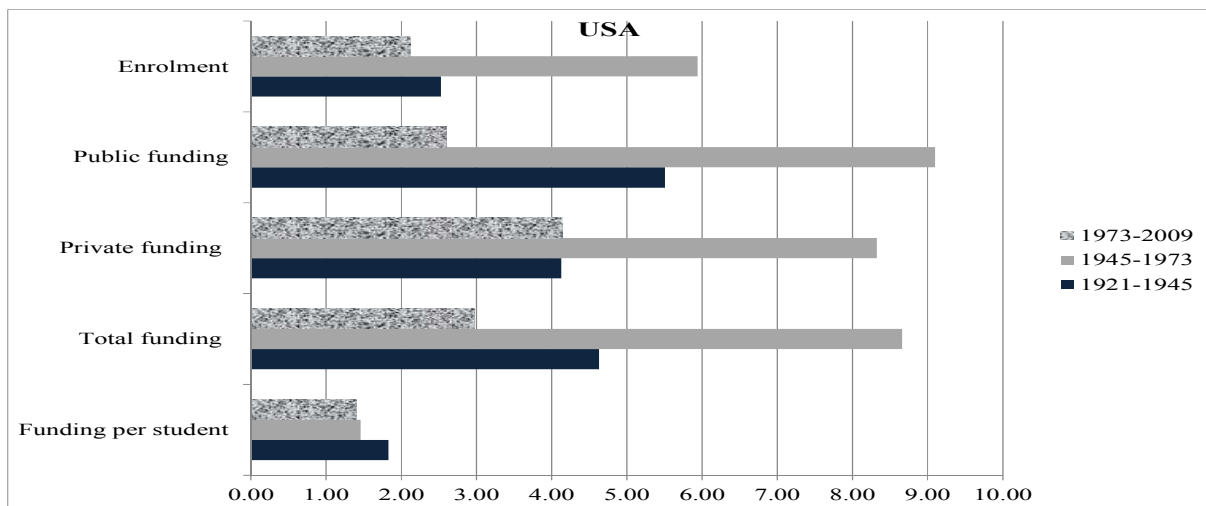
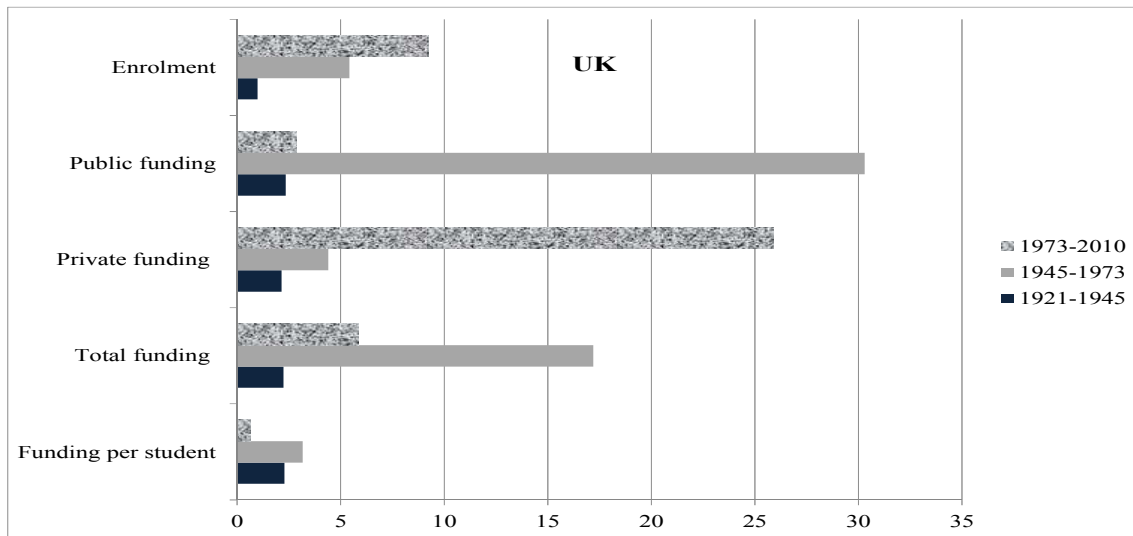
Private income has been a response to the cyclical fluctuations in public funding (Figure 4). Private funding remained moderate during the post-war prosperity and re-emerged after the 1970s downturn. However, the graphs reveal differences in the ways in which trends of public and private funding were articulated in the three countries with strong implications for overall resources.

From the 1970s to the 1990s, the transformation of the income structure in the UK was driven by private funding, which has been acting as a partial substitute for public funding rather than an additional income (Carpentier, 2010). This trend has been only partially reversed by the reactivation of public funding in the 2000s. Similar substitutive trends happened in France but at a lower scale. Until recently, the three parallel curves show that both public and private resources were sustained in the USA. Until 2008, the absence of substitution partly explains why USA expenditure as share of gross domestic product (GDP) is twice as high as that of France and the UK. In a context of a sustained expansion of enrolment, the combined dynamics of public and private funding in the USA managed to drive higher funding per student than France and the UK (Figure 5). However, the changes in income trends since the crisis question whether this virtuous cycle may have been (permanently) broken. USA public and private resources curves are not parallel anymore due to a stagnation of the former and a declining trend of the latter caused by the collapse of donations for private institutions (Figure 4). Time will tell whether 2008 constitutes only a pause in this trend or a turning point highlighting the increasing vulnerability of USA institutions to market forces.

**Figure 4 Income of universities (1990 Geary-Khamis \$) 1921–2009**



**Figure 5 Multipliers of enrolment and income of universities (1990 Geary-Khamis \$) 1921–2008**





The historical and comparative perspective suggests that additional private resources do not necessarily mean additional overall income. This can lead to diametrically opposite diagnoses of underfunding and different policy responses to it. Public-private substitution may be seen to have gone too far or not far enough. Exploring this more closely requires looking beyond the aggregated level of private funding. The following focuses on the UK and examines the dynamic of growth of the various private resources, their relation with each other and with public funding and the implications for overall funding, equity and quality of the system.

### **The rise of fees: cost-sharing or substitution?**

Strikingly, the UK mass higher education system of 2010 is as reliant on private funding as the élitist one of 1920. However, today's funding structure is a much more complex combination of traditional and new private resources. This section and the next compare and contrast the historical trajectory of private resources. They examine their relation to economic fluctuations. They particularly explore whether their re-emergence as a response to the 1970s crisis produced additional or substitutive resources (for the whole period or at certain times) and to what effect. This section focuses on fees and the next one will examine other private resources.

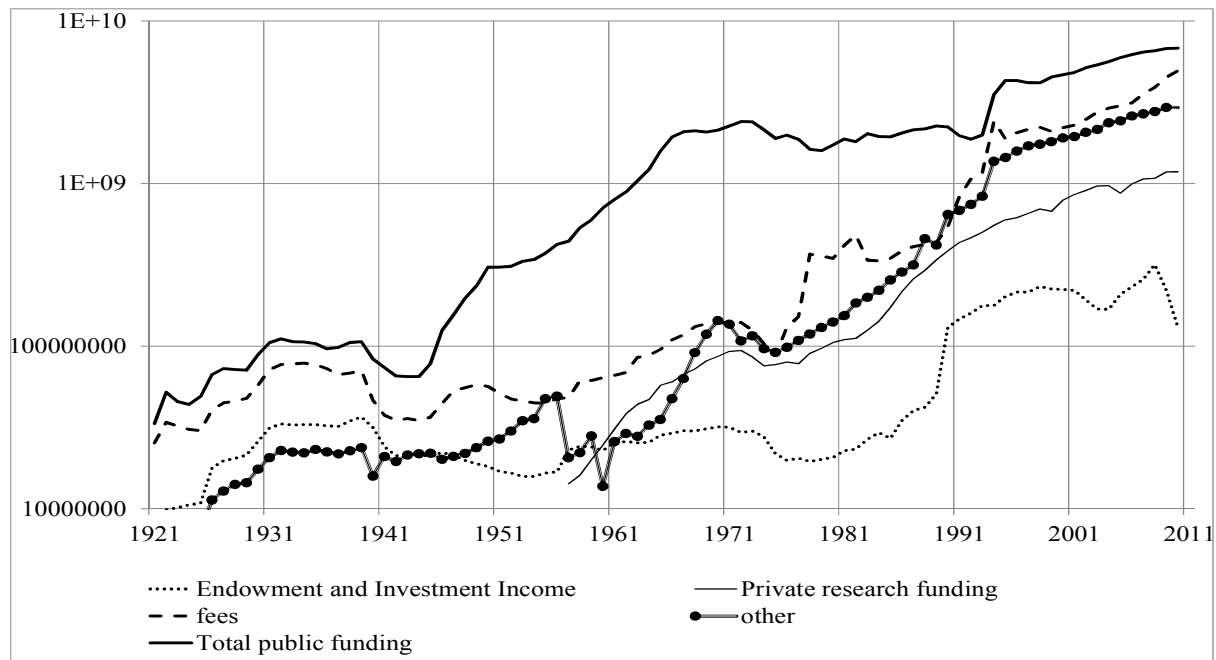
#### *The emergence of fees and cost-sharing*

Fees represent today's main private resources. Their share of university income remained strong and stable in the USA over the period (at around 20 per cent) and fluctuated significantly in the two other countries (Figure 3). The financial weight of fees in the UK is clearly reversed to Kondratiev cycles. Their share of total income dropped from 30 per cent to a negligible amount during the post-war prosperity era. Fees re-emerged after the 1970s crisis as the main strategy to compensate for public funding slowdown and returned to their pre-war share. A similar but more timid trend took place in France where postgraduate and disguised fees have gradually increased since the 1990s to reach 10 per cent of higher education income today (Carpentier, 2006a).

These trends illustrate the historical development of cost-sharing prescribing that students and their families complement the state in supporting some of the cost of their study (in return for substantial monetary benefits) (Teixeira et al., 2006). This encompassed successive systems of articulation of fees, loans and grants. In the UK, cost-sharing started with a fee rise for international students in 1967 followed by unregulated full cost fees for non-European Union (EU) international students in 1980 (EU and domestic students are since then subjects to the same fee régime). In 1990, the contribution was extended to domestic and EU students with the gradual replacement of grants by loans. The 1998 Teaching and Higher Education Act introduced a £1,000 means-tested upfront fee supported by loans and, against the Dearing Report's recommendation, abolished maintenance grants (Watson and Amoah, 2007). The 2004 Higher Education Act introduced

in England, Wales and Northern Ireland deferred variable fees of up to £3000 (payable by graduates earning more than £15,000) and reintroduced a means-tested grant.

**Figure 6 University resources £1990, UK, 1921–2010**



This historical overview shows that the rise of deferred variable fees for England to £6,500 and up to £9,000 introduced by the 2011 White Paper (BIS, 2011) can be understood as part of a longer historical trend (Figure 6). However, the scale of the fee rise and more importantly the pressure put on public funding questions whether the reform could shift public-private substitution much further, stretching the cost-sharing strategy to the limit.

*Cost-sharing or substitution? Implications for overall resources, access and quality*

There have been heated debates about the implications of the successive changes in student finance for access, experience and achievement of under-represented groups. Before exploring them, it is important to note that inequalities of class, race, ethnicity and gender intersect and map onto access and divisions between higher education institutions (Bourdieu and Passeron, 1964; Reay et al., 2005; Morley and Lugg, 2009). Moreover, debates about fees cannot be undertaken in isolation and raise issues of pre-existing inequalities sometimes reproduced and accentuated by the school system (Galindo-Rueda et al., 2004). Finally, participation is also negatively affected by (non-financial) policies and practices in higher education from the admission process to graduation (Burke, 2012). However, student finance remains a key factor of participation leading to question whether cost-sharing could go too far.

The potential impact of the articulation between fees, grants and loans on equity is difficult to disentangle. On the one hand, most will agree that the mandatory grants to cover living costs and tuition fees were key drivers (alongside the development of gender equity (Dyhouse, 2006)) of the post-war (unachieved) democratisation of higher education. On the

other hand, the impact of the post-1980s growing financial contribution from students on access is more difficult to assess. The first phase of cost-sharing in the early 1980s was driven by international students' contribution and did not raise equity issues at the national level: although it raised important ones at the global level because international scholarship did not follow the fee rise proportionally (Carpentier, 2010). The second phase of cost-sharing in the 1990s increasingly relied on the contribution of domestic students with the reduction of grants and the rise of loans and fees. Student numbers have kept on increasing, suggesting that fees, especially deferred, combined with targeted student support can drive a progressive agenda (Barr, 2003). However, key questions remain about the impact of fees on the social composition of the student body. Participation rates by class confirm a persistent trend of social inequalities (Archer et al., 2003; Bolton, 2010). Moreover, the neutrality of deferred fee on access has been questioned by differences in debt aversion according to social class (Callender and Jackson, 2005).

This mixed picture suggests that until now inequalities were managed and distributed across institutions because fee rises were combined with public student support such as grants and income contingent repayment of student loans (Dearden et al., 2011). A key element is, therefore, whether cost-sharing associated with fees takes place in a context of additional income rather than substitution. The White Paper 2011 is problematic in the sense that for the first time the substantial fee rise for domestic students is concomitant of a significant reduction of public funding. The risk of increased substitution questions whether continuous fee rises combined with a slower increase of grants compared to loans and reduced national budget towards widening participation may increase inequalities in access and participation between students and across institutions. Since the crisis, new developments such as the setting up of emergency funds by USA universities to help students struggling to pay for their fees (Weisbrod and Asch, 2010) should be watched closely.

Substitution may impact not only on access but also on participation and experience. While additional funding does not mechanically equate with higher quality, the provision of extra resources towards student experience is a key rationale behind the fee rise. However, higher fees as a substitute for the teaching grant may lead to a transfer rather than an increase of the resources channelled towards student experience for all leading to a potential clash between teaching and learning and funding policies (Trowler et al., 2005). The historical lens suggests that the evolution of many teaching and learning indicators mirrored the cyclical patterns of financial indicators. For example, the full-time academic staff per student ratio decreased from 15 to 9 from 1948 to 1974 and rose from then to 21 today (Carpentier, 2006a, updated with HESA). This trend should also be connected with the increase of part-time staff whose share rose from 15 per cent in 1997 to more than 50 per cent today and the fact that a third of academic staff is employed on fixed-term contract (HESA, 2011). The decline of staff-student ratio and the casualisation of staff, that can be related to the tensions between funding and participation highlighted by the cycle, have not been reversed by the implementation of cost-sharing policies (Carpentier, 2006a).

The construction of a higher education market (with low upfront public funding) in which student fees are supposed to reflect supply and demand and drive quality is taking place in a new economic context in which the crisis has deeply constrained 'choice' and increased status competition (Brown, 2010; Marginson, 2011). The reform may be anachronistic due to the real or perceived changes in public and private costs and benefits from higher education since the crisis. The current (and only) focus on the public deficit to solve the economic crisis has strengthened the case for cost-sharing. However, private debt, which was also considered as key trigger at the beginning of the crisis, had been ignored but remains an issue. This raises the possibility that the rise of study costs (increasingly financed by student loans and other debts) may contrast with the revised long-term financial returns (higher unemployment rates amongst graduates and lower premium) and dissuade new entrants or make their debts unsustainable. Discrepancies between costs and returns have also led Altbach to argue that the next financial bubble to burst might well be higher education (Altbach, 2008). This ironically could lead to a long-term increase of public funding due to repayment default and excessive fee policy (Barr, 2011).

Therefore, cost-sharing's ambition to increase fees to stimulate overall resources, equity and efficiency may be derailed by public-private substitution. On the one hand, fees acting as substitute for slower public funding may only transfer resources without much effect on quality improvement and with potential harm to participation. On the other hand, the current crisis raises the possibility that both fees and public spending could suffer from hard times. So can other private resources step in and to what effects?

### **Can (or should) other private resources step in?**

Cost-sharing has been predominantly associated with fees but also relates to other types on income. The following explores how other private resources are articulated to the cyclical trends in public funding and fees. Do they act as additional or substitutive funding? It also examines how these private resources relate to each other and whether they conform to specific or common logic. Can they contribute to a sustainable, equitable and ethical higher education system? Should these resources be add-on or core business?

#### *Prospect and challenges of philanthropy and investment income: an unclear relationship with the economy*

There is a correlation between endowment and investment income and economic cycles in the UK (Figure 6). Endowments used to generate ten per cent to 15 per cent of university resources but this share diminished to one per cent during the post-war prosperity. Philanthropic income were initially hit by the 1970s crisis but increased significantly (to four per cent of total income) after the mid-1980s as public funding slowdown continued. However, the long-term trend hides the sensitivity of philanthropic income to economic shocks such as the 1998 and 2008 downturns. The current crisis has affected both the levels of donation and the returns from endowments hit by the market loss. Investment income declined by 30 per cent in the UK in 2011 (HESA, 2011). In the USA where philanthropy has

been always strong and sustained, universities registered a loss of US\$120 billions in endowment in 2009 (Anderson, 2010, p. 18), which explains the slump in income per student (Figure 1). However, the loss should be put into perspective as it was concentrated on the big not-for-profit universities and meant that endowment returns reverted to their level of early 2000 (Weisbrod and Asch, 2010). Nevertheless, this development questions whether philanthropy has the capacity to compensate for fiscal constraints experienced by institutions and contribute to financial stability.

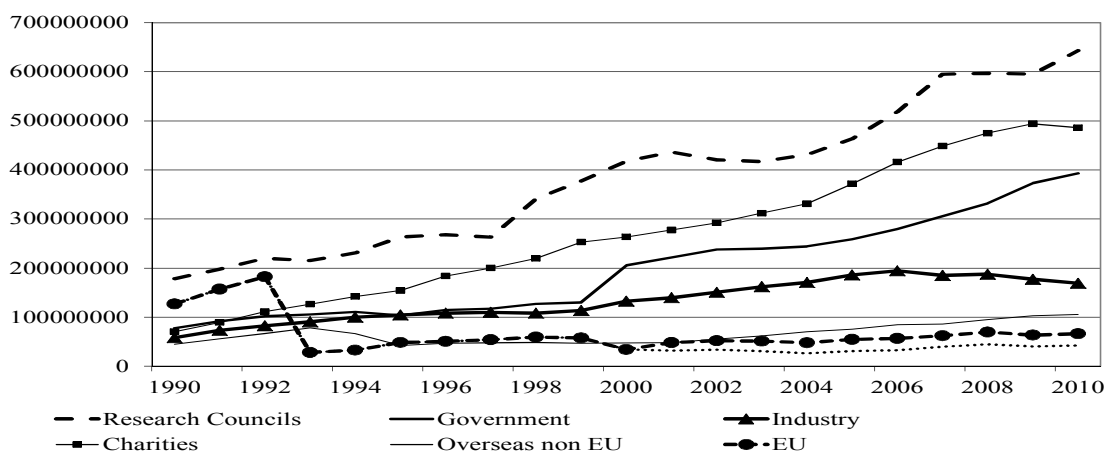
Possible conflicting trends and rationales between private resources need to be considered. Unlike fees, donations suffered from the crisis and one wonders whether philanthropic forms of student support such as scholarship or the use of investment income are ready to compensate for fee rise and declining student support, especially during hard times when the needs to maintain equity are even more important. Furthermore, are fee-paying students willing to donate? Some studies have shown that donations increase inequalities between institutions in the USA (Cheslock and Gianneschi, 2008) and the UK (Sutton Trust, 2003). Donation can also, especially in times of austerity, raise ethical issues related to the origins of funds. Philanthropic activities before the 1970s used to act as additional rather than substitutive resources (Carpentier, 2006a). It is critical to find mechanisms that could link rather than oppose public funding and philanthropy such as the UK government donation matching scheme, which ran from 2007 to 2011. The government has yet to come up with new proposals but seems more inclined to use the budget and tax breaks to boost philanthropy rather than putting in place a dedicated national scheme for fundraising (BIS, 2011, p. 22).

#### *Private research: a failed public-private substitution and its reversal*

Trends and structures of research funding are clearly influenced by long economic cycles. The share of public-funded research rose from 50 per cent to 70 per cent from the early 1960s to the crisis of the mid-1970s and has since fluctuated between 45 per cent and 55 per cent (Carpentier, 2006a). However, private funding lost its impetus in the late 1990s and only partially covered for the slowdown of public funding. Government and research councils stepped back in the early 2000s to sustain the growth of resources. Could it be an example of a reversal of public-private substitution?

Businesses and corporations were not ready or willing to increase their share of research funding, which has dropped from 13.8 per cent to 6.4 per cent since 1990. Charities stepped in in the early 1990s but suffered from the 2008 crisis (Figure 7). Overseas funding increased its share from 10 per cent to 15 per cent since 2000 (ten per cent from the EU). Under the tough financial climate, there is a risk that the government does not step in and that both public and private resources could suffer, raising issues about the level, nature and orientations of research and its concentration.

**Figure 7 Distribution of research income, (1990 prices) UK universities- 1990–2010**



### *The rise of third-stream activities*

The correlation between universities' involvement with third-stream and commercial activities and economic cycles is clear. During the inter-war years, this category generated ten per cent of income (mainly examination fees). This share declined during the period of post-war prosperity and rose after the 1970s crisis to reach 20 per cent of income today (nearly as much as fees) a similar share to that in the USA (NCES, 2010). Half of this income arises from catering and residences, organisation of events and conferences. Another quarter comes from selling specific services to other private or public institutions. The remaining quarter includes third-stream income for services rendered to industrial and commercial companies and public corporations, intellectual property rights and validation fees.

Part of this income relates to transnational education, which represents one per cent on university income but is on the rise. The number of students enrolled in offshore UK provision rose from 204,900 in 2003 to 408,460 in 2010 surpassing the number of international students based in the UK (405,805) (HESA, 2011). However, it is important to consider that transnational higher education can be volatile, not necessarily profitable and risky for the institution's reputation (Knight, 2008). The risk that offshore education could cannibalise international demand for the home campus (Wilkins and Huisman, 2011) is another example of private resources potentially playing against each other.

It is difficult to establish whether these commercial activities act as additional or substitutive resources. It is still unknown how the current crisis will impact on universities' actual and potential public and private clients. Commercial activities were hit, at least temporarily, by the previous crises in 1931 and 1973 (Figure 6), warning against considering such revenues as core funding rather than add-on.

To sum up, the historical trajectories of private resources since the 1970s reveal both their potential and limitations in complementing the rise of fees in order to mitigate the slowdown of public funding. Philanthropy offers additional resources but is vulnerable to economic shocks. A public-private substitution slowed down the overall research income

and had to be reversed. Industries' timid involvement and charities' vulnerability to the crisis have led the state to step back in. The expansion of third-stream activities has clearly been a new engine of income but remains dependent on economic cycles and clients. Shattock asks 'how easy is it to reorient funding towards private resources in a recessionary climate' (Shattock, 2010, p. 26).

### **Emerging policy: the acceleration of private funding and a shift to market providers**

This historical analysis shows that, in a context of public funding austerity, the acceleration of private funding alone has a small chance to drive a sustainable and equitable expansion of higher education. This section explores the current policy trends that combine private funding and market provision. The following section reflects on the possibility of rebalancing of the public-private dynamic of funding.

#### *Further acceleration of private funding: prospects and challenges*

A first lesson from the historical perspective is that the USA managed to maintain overall resources per student by avoiding a public-private substitution. The rise of fees coincided with increases of public funding and other private resources driven by a solid tradition of philanthropy from corporations, wealthy individuals and graduates that generated a wider range of scholarships to students. The key question is whether such parameters and conditions exist in the UK in order to replicate this system. So far, the various reforms developed since the early 1980s have driven a fees/public funding substitution but have not created the mechanisms and initiated the cultural changes necessary to increase the contribution from other stakeholders.

A second key lesson is that the public-private harmonious expansion of funding in the USA has been challenged by the current crisis. Talking about a perfect storm, Weisbrod and Asch (2010, p. 29) signal that: 'endowment losses; tightened credit; and shortfalls in tuition, donations, and state funding—each is manageable, but all have come at the same time. No one of them has caused a serious problem; together, they have'. So the diversification of income might not represent a sufficient solution to underfunding during hard times if public funding is not sustained.

It is important to keep these trends in mind when examining the current reforms that seek to complement private funding with the expansion of market providers (institutions not funded by UK public funding, such as domestic and foreign private providers and private and public foreign providers).

#### *The emergence of market provision*

The recourse to market providers during hard times is not new. Indeed, there is correlation between Kondratiev cycles and the structure of public-private provision. The 1970s crisis led many low-income countries to welcome private providers to escape 'the constraints about public expenditures that now restrict public expansion' (Levy, 2003, p. 3). However, this was also true for high-income countries such as the USA where private providers traditionally

concentrated half of enrolment until World War Two. This share dropped to 20 per cent during the post-war prosperity until the crisis of the 1970s and has since increased to reach 30 per cent today (NCES, 2010, p. 292).

The recent crisis has led the British government to complement private funding with provision outside the traditional higher education sector (BIS, 2011). This includes the expansion of provision of higher education in further education (in 2009–10, 177,000 higher education students were taught in further education colleges (Parry et al., 2012, p. 12)) but also beyond the public sector with the expansion of private and global providers. In a recent report, Middlehurst and Fielden (2011, p. 39) predicted a fragmented higher education system in 2016, where private providers would fill existing gaps.

Post-1980s market provision combined with global provision. Although universities have always been worldwide institutions (Scott, 1998), the internationalisation of higher education is increasingly being shaped as a response to the scarcity of public resources. Since the 1970s downturn, pressures for private-income generation in some advanced higher education systems have coincided with the need for capacity building in higher education from other countries (Carpentier and Unterhalter, 2011). This trend has been accelerated by the contemporary form of economic globalisation, with its stress on free trade and low taxation. Therefore, new global practices, discourses and structures such as the General Agreement on Trade in Services (GATS), which stipulates that higher education 'should be regulated like other goods and services' (Robertson, 2010, p. 12), did not create but acted as a multiplier of public-private substitution of both funding and provision across the world.

Private providers in the UK include a small group of institutions with degree awarding powers, a second group offering their own non-UK awards and a much larger group offering an award from a UK institution (King, 2009, p. 11). 'There is currently no process for collecting data consistently from those institutions' (Ramsden, 2008, p. 10). Most agree that their enrolment is still limited but likely to expand as shown by the government's plan to increase accreditation, relax degree awarding powers and develop loans for students from the private sector (BIS, 2011). This shift is facilitated by the blurred frontiers between public and private dimensions of higher education (Tight, 2006; Barnett, 2010) and the fact that funding substitution made private provision more acceptable. As Altbach (1998, p. 2) puts it, 'with tuition and other charges rising, public and private institutions look more and more similar'. Moreover, traditional universities seeking profits abroad increasingly act as private providers (Ball, 2012, p. 24).

Therefore, the UK is already part of a global division of labour to maximise private income generation (by attracting international students and exporting offshore education) and minimise public-funded capacity building by hosting (public and private) international providers and increasingly sending domestic students abroad. Experiences from other countries show that welcoming private and (or) global providers raises issues that are similar to those associated to private funding as well as to specific ones.



### *Prospects and challenges*

A key question is whether market providers offer additional capacity building or substitute for existing and future public funding and provision. Depending on the country, market providers cater for the élite, sometimes for excluded groups (on grounds of ethnicity, religion, gender, class) or both. In Brazil, some private providers target the richer parts of the population while others may enrol the less wealthy parts of the society unable to access the free, but highly-selective, public system (McCowan, 2007).

Quality of market providers is also an important issue (intimately linked to equity), which has led the South African (Naidoo et al., 2007), Indian (Carpentier et al., 2011) and USA governments amongst others to reinforce their quality assurance framework. A key issue to also consider is the connection between private provision and public funding. Plans to extend student loans for all private institutions (and not only those with degree awarding powers) will require careful mechanisms to regulate fees and avoid potential repayment default, which have the potential to increase the long-term public funding.

Another development to consider is the sharp decrease of university income from 2008 to 2009 (Douglass, 2010), which shows the vulnerability of the USA public-private model of funding and provision to the global crisis. The two per cent drop of public institutions' income due to a contraction of state expenditure is insignificant compared to the 50 per cent reduction of not-for-profit private providers' revenue (due to a collapse of their investment income from a US\$55 billions profit in 2007 to a US\$6 billions loss in 2009) (NCES, 2010, p. 518). Time will tell whether this is a temporary problem covered by reserves or a more structural development of substitutive trends in the USA. In any case, this shows that a diversification of private funding and market provision leaves institutions and the whole higher education system vulnerable to economic turbulences. Without the stability of public support, an overreliance on a big strength of USA higher education such as philanthropy can backfire. These recent developments in the USA should be looked at carefully in the UK and elsewhere.

The historical lens suggests that diversification of funding and provision as part of an additional or a substitutive income strategy is not the same thing. The capacity of a new funding settlement based on a pursuit of private funding and provision and limited upfront public funding can lead to three possible responses.

1. Private funders step in as well as private providers ensuring a well-managed diversification with an equity maintained by sufficient public funding.
2. The system shrinks back to a smaller élitist system. Neither private funders nor private providers step in.
3. The system expands by welcoming global and private providers in a context of slowdown of both private and public resources. This leads to a new fragmentation and a new binary line based on public élite institutions and public and private non-élite providers. Fees and quality are very diverse and research is concentrated.

## **Rebalancing the public-private dynamics of funding in higher education**

This section shows that from a historical point of view the relationship between austerity and crisis is not as straightforward as it might seem today. There could be an historical case to develop counter-cyclical public policy to rebalance the public-private funding of higher education.

### *The case for counter-cyclical spending*

Taking a longer historical view designates the economic crisis of the mid-1970s as unique in the sense that it was the first long economic downturn leading to a slower growth of public funding in education. Indeed, previous economic downturns of the Kondratiev cycles (such as the 1830s, 1870s and the 1930s) coincided with accelerations of funding towards education (Fontvieille, 1990; Carpentier, 2003, 2006b).

The idea that pre-1945 fluctuations of public funding on education were reversed to Kondratiev cycles is rather counterintuitive. In today's world, it seems rather paradoxical that educational funding could expand at a fastest rate during hard times and at a slower rate during phases of prosperity. One interpretation is that counter-cyclical spending directed at the social sphere was a key driver of recovery from these crises of capital, which, though it may be abundant, is not invested efficiently. Over-accumulated capital was used by industrialists themselves (philanthropy) or indirectly by taxation to finance the development of social activities such as education. These new resources did not only tackle the immediate social consequences of the crisis but also addressed its long-term cause, the erosion of human development, which appeared not only to be socially damaging but also to block the dynamic of growth and the perspectives of profitability. In that sense, these crises were turning points when the links between inequalities, economic performance and taxation were reassessed (Carpentier, 2009) and the harmony between technological and social innovations was restored (Freeman and Louçã, 2001).

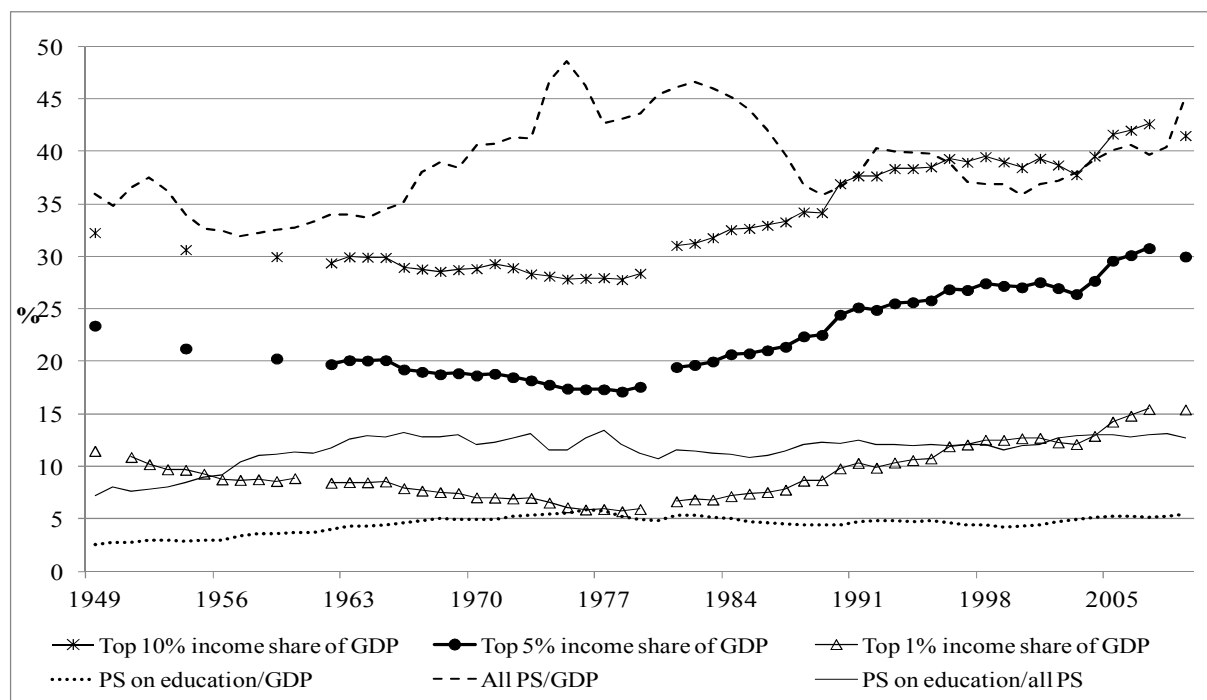
Although most of the use of over-accumulated capital to develop productive social spending during the crises of the 1830s, 1870s and 1930s focused on compulsory education (Carpentier, 2003), there have been signs of counter-cyclical increases of public and private funding of higher education. Industrialists' attempts to recycle abundant capital for philanthropic activities capable of generating new sources of productivity and future profits included donations to traditional universities and the contributions to the creation of the vocational-orientated mechanics' institutes and the civic universities in the 19th century (Sanderson, 1972). Many of these universities, which were created during times of crises of 1830s and 1870s, were in difficult financial situations when the first annual treasury grant to University Colleges was voted in 1889, in the middle of the long depression, to top up their income rather than substitute for it. Similarly, private resources were acting as additional income during the inter-war depression. The increase of public funding following the creation of the University Grants Committee in 1919 coincided with a progression of fees and philanthropic resources (Figure 6). So, while it is clear that the system was very

different then, these are examples of synergetic, rather than oppositional, trends between public and private resources as experienced today.

This historical interpretation makes the crisis of the 1970s unique. For the first time, an economic downturn led to a slowdown in public funding of the social sphere. The over-accumulation of capital was instead diverted to other national and global channels such as the financial sphere and the increased marketisation of the social sphere.

The post-1970s crisis is contemporaneous with a decrease of the share of GDP devoted to public spending and an increase of the concentration of wealth by top income earners (Figure 8). There are different ways of interpreting these correlations. One of them is to consider the historical build-up of tensions between income inequality, the public sphere and the economy since the 1970s that have been brought back to the fore by the current crisis (Atkinson and Piketty, 2007; Krugman, 2008). This suggests that post-1970s austerity policy interrupted the socio-economic transformations (including in education) that contributed to recover from previous downturns. In other words, the agenda of austerity has played against the other agenda of the knowledge economy.

**Figure 8 Public spending (PS), education and socio-economic indicators UK: 1918-2009**



Sources: On income: *The World Top Incomes Database*. Alvaredo, F., Atkinson, T., Piketty, T and Saez, E. <http://g-mond.parisschoolofeconomics.eu/topincomes/>. Other indicators: Carpentier (2007).

The post-2008 crisis could then be interpreted as the exhaustion of the post-1970s unequal dynamic of growth sustained by private debt (rather than public spending) and cheap imports, which have been hiding inequalities until the breaking point was reached. However, much of the responsibility for the crisis was put on the state rather than initial

market failure. This explains the current attempts to resolve the crisis by focusing on the sole reduction of deficit (to the exclusion of any other indicators) mainly through the control (rather than efficiency) of public spending rather than fairer taxation. This intensification of the post-1970s reforms will undoubtedly accelerate the shift from cost-sharing to public-private substitution in higher education funding. However, looking at the resolution of past crises, it is relevant to consider whether a counter-cyclical spending policy is possible and to explore what it would mean for higher education.

### *Rebalancing the public-private dynamics of funding in higher education*

An alternative higher education funding reform could be placed within a much broader reassessment of the links between economic efficiency, equity and taxation in which the socio-economic benefits from the public spending devoted to the sphere of human development are substantially revaluated. This does not consist in returning to the Fordist model but implies a decisive scale down of the marketisation trends of the social sphere since the 1970s that have been exposed by the financial crisis. Similarly, this is not a nostalgic return to the so-called golden age of higher education (which was sustainable but élitist) but rather a rebalancing of the public-private dynamics of funding in higher education combined with a renegotiation of how we understand public benefits from higher education (Collini, 2011).

It was suggested earlier that a key condition for a sustainable and equitable mass higher education system is a funding settlement ensuring that the increase of private resources does not depend on the slowdown of public funding. A counter-cyclical rise of public spending on higher education would counter the mechanism of public-private substitution. This would help to strengthen cost-sharing with an ambitious student support policy. It would also shield the government, students and graduates from ever-rising fees that contrast with potentially lower and unstable returns from their studies and could lead to a loan crisis. The re-activation of upfront public funding is a key factor preventing fees from being the only lever for resources, which should be complemented by new mechanisms to attract additional rather than substitutive private resources.

The historical analysis has uncovered some mechanisms ensuring greater articulations between public and private resources that have the potential to generate additional (rather than substitutive) resources while addressing equity and ethical issues. A non-substitutive income generation policy would include public funding mechanisms supporting the progression of philanthropy, add-on rather than core funding commercial activities, a strong dynamic of public research complemented by additional private resources and a balanced strategy of internationalisation.

### **Conclusion**

The historical perspective reveals a link between funding and expansion of higher education and economic fluctuations and traces the emergence of tensions between funding and access policies back to the fiscal impact of the economic downturn of the mid-1970s.

Since then, various models of public-private funding of higher education have been implemented around the world. For example, from 1997 to 2005, higher education expenditure in China increased six fold and its share of GDP doubled to reach 1.5 per cent. Government expenditure tripled but tuition fees increased much more. As a result, the share of public income dropped from 64 per cent to 42.5 per cent while the share of fees increased from 17 per cent to 32.5 per cent (Zhao and Sheng, 2008, p. 6). It would be interesting to explore the effects of this extremely rapid implementation of cost-sharing policies by such a major player in a very different demographic and economic context.

The main lesson from the comparison and contrast of the UK, the USA and France is that, in a context of austerity, the increase of fees combined with the emergence of other private resources does not necessarily mean additional income. As a result, there is a risk that cost-sharing becomes a public-to-private substitution of funding and provision. Moreover, the 2008 crisis reminds us that there is balance to be struck between the diversification of income and the risk of volatility associated with some private resources.

Diametrically different routes have been proposed since the 2008 crisis to reach an equitable and sustainable mass higher education system. The historical analysis developed here suggests that the current attempt to complement private funding with market provision raise similar and additional challenges to do with resources, equity, quality and over-fragmentation of the system and may lead to an increase of deferred public expenditure in the long term.

Alternatively, the dynamics of public funding could be revived in order to prevent a clash between the agenda of austerity and the agenda of the knowledge economy. This route does not correspond to the current strategy to overcome the crisis by a deficit reduction agenda that privileges the control (rather than efficiency) of public spending over the development of a fairer taxation system. However, the cyclical analysis indicated the uniqueness of the post-1970s austerity policies. Previous economic downturns were key moments of transformation where counter-cyclical public spending towards the social sphere played a crucial role in addressing the tensions between the production and redistribution of wealth and eventually contributed to reviving an inclusive growth. A revival of public funding in higher education complemented by an additional rather than substitutive diversification of income could lead to a sustainable higher education system playing a part in these socio-economic transformations.

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