7. Marketisation in education

> Health, education, some incarceration, some military and police activities, and some of what now is presumed to be 'social' insurance like [US] Social Security, can probably be provided more cheaply and attractively by private firms. It is plausible that 50 years from now, today's support for public provision of these services will appear as dirigiste as the 1940s arguments for state ownership of industry appear now. A good government that wants to further 'social goals' would rarely own producers to meet its objectives.
>
> Andrei Shleifer (1998)[1]

School education is a quintessential public service, serving a wide range of social values and enjoying firm support from citizens and voters in all advanced liberal democracies. That applies even in the US, where the state's role in healthcare has remained contested. For Milton and Rose Friedman, however:

> The history of schooling in the United States, the United Kingdom, and other countries has persuaded us that compulsory attendance at schools is not necessary to achieve that minimum standard of literacy and knowledge.[2]

And the reason governments got involved was not because of concerns from parents but because teachers and government officials could be 'expected to enjoy greater certainty of employment, greater assurance that their salaries would be paid, and a greater degree of control if government rather than parents were the immediate paymaster'.[3] They made that argument in *Free to Choose*, their neoliberal playbook written for a British readership.[4]

Walter Armytage gives a different historical account of the origins of the 1870 Education Act, which introduced compulsory education in England in response to pressure from the civil service, industry and organised

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labour. It attracted support in Parliament from 174 MPs, eight bishops and 26 peers, and the only opposition expressed was that the legislation did not go far enough.[5] The system of schools in England and Wales later developed greatly under the Attlee settlement to tackle Beveridge's giant of Ignorance, 'which no democracy can afford amongst its citizens' (see Chapter 4).[6] In the 1940s, a good education was not seen as a key route to the prosperity of individuals or countries. It is now. Good schools enable students to gain access to higher education, and then move on to glossy jobs and all the benefits they bring.

The Friedmans' proposed remedy to (what they saw as) the UK's flawed system of state schooling was to introduce a voucher system to empower parents as consumers. The first section of this chapter looks at that policy and the consequences after it was implemented by the Pinochet-led government in Chile. Section 7.2 looks at the way a voucher system was modified into a 'quasi-market' for schools in England. This scheme claimed to offer a remedy for failures of the Attlee settlement in which governance of schools was based on entrusting teachers with professional autonomy in their 'secret garden' – a system that lacked choice, incentives, equitable funding, and sanctions for failure. Under the Thatcher settlement the aim was to empower parents by giving them a real and equal choice of alternative schools, in a market-like setting where competition between schools would generate incentives on teachers to improve their performance. To inform choice by parents the national government also began to publish league tables of schools, comparing their performance in public exam results and in test scores for earlier-years children.

The third section of the chapter considers the remodelling of undergraduate university education in England and other UK countries. Under the Attlee settlement, undergraduate university education (UUE) was 'free' with (means-tested) grants to cover living costs. Only 5 per cent of young people went to university up to the 1960s. By the 1990s, that proportion increased to over 30 per cent.[7] Yet increasing enrolment without changing the tax-based system of finance meant either constraining the expansion of higher education or reducing its quality or both. Hence governments faced a need to redesign the system to try to optimise the size and quality of the university sector and deliver equity of access (according to ability to benefit). Again, the neoliberal approach was to attempt to develop a better system via a competitive market, financed by students paying fees to universities, for which they took out income-contingent loans from a state agency.

The final section of the chapters looks at the difference that devolution in 1990 made to education. The governments in Wales and Scotland partly moved back to systems of the Attlee settlement. Wales stopped publication of league tables of schools' exam results and Scotland abolished tuition fees (for Scottish students going to Scottish universities). I assess the impacts of these changes by comparing England with Wales and Scotland; and looking also at outcomes in Germany, which first introduced and then abandoned tuition fees for undergraduate education.

7.1 Designing social segregation by schools in Chile's voucher system

On 9 September 1973, a clandestine CIA officer, Jack Devine, was eating lunch at an Italian restaurant in Santiago, Chile, when a colleague joined his table to whisper in his ear, 'Call home immediately; it's urgent.' When he did so, his wife told him of a call from a CIA source that he was about to leave the country from the airport because the Chilean military had set a coup in motion.[8] The country was in chaos after three years of President Allende's implementation of a Marxist programme of reforms: nationalisation of US copper companies (without compensation) and 90 per cent of the banking system; expropriation of many large and medium-sized farms; the administrative takeover of some 300 factories; and introduction of workers control in socialised enterprises.[9] In retaliation, the US imposed a credit blockade that resulted in all kinds of shortages. Black markets were rampant, state-owned buses could not run, government debt soared with hyperinflation, and bombs rocked the capital.

After the military coup and the assassination of President Allende, General Pinochet took over as the head of a military dictatorship. Those advising Pinochet's government on its programme of neoliberal reforms included Milton Friedman and the 'Chicago boys', Friedrich von Hayek, and other members of the Mont Pèlerin Society (a neoliberal organisation founded by von Hayek in 1947 – see Chapter 5).[10] They seem to have been untroubled by the Pinochet government's appalling brutal record of repressing dissent: more than 35,000 people were tortured and over 100 were 'disappeared' or were executed.[11] (Forder suggests that, later, Friedman was keen to downplay his influence on Pinochet's government, and overplay that on Margaret Thatcher's.[12])

The Friedmans recognised that returning to their Arcadian vision of abolition of state schooling was not politically feasible. So, their second-best solution was a voucher system to enable parents to top-up state funding so as to secure better education for their children. Figure 7.1 outlines the traditional state schooling system, the Friedmans' voucher system, and its modification in a quasi-market (see Section 7.2). In each system there are independent schools for which parents pay their full costs. The voucher system implemented in Chile enshrined three cardinal principles of neoliberalism:

1. Public finance of a service does not mean public provision.
2. Public services ought to be organised in a market where the funding of providers follows consumer choice (in this case parents' choices).
3. The market for public services ought to be designed so that those who want to spend more to gain better services can easily do so.

Figure 7.1: Private schools and three state systems

Key features	Private school system	Publicly funded systems		
		Conventional	Voucher system	Quasi-market
Types of school	Independent	Public	Public and private	Public and self-governing
Provider organisation	Autonomous, self-governing	Bureaucratically run by local governments	Autonomous	Regulated NGO/firm single school trust, or chain of schools
Funding source	Wholly parents' fees	Taxes	Taxes fund vouchers plus top-up fees paid by parents	Taxes and some funded by corporate sponsors
Parental choice	Competitive market with choice based on quality, accessibility and cost	Local monopoly. No choice*	Competitive market with choice based on quality, accessibility, and cost	Competitive market with choice based on quality, and accessibility
School income	Depends on numbers of pupils and the fees charged	Annual school budgets set with incremental changes over time**	Depends on numbers of pupils and top-up fees from parents	Determined by formula that takes into account numbers of pupils and their needs

Notes: *Limited right to appeal against the school that is allocated. **Budgets are set by staffing levels, without considering the numbers and needs of pupils, or school performance.

Voucher systems could tackle four constraints of the traditional arrangements of the UK's Attlee settlement:

- Schools were subject to bureaucratic and political control (by local governments).
- Parents had almost no choice – the school their children went to was determined by its catchment area (set by local government).
- The funding for each school was based on its current size and staffing, with only incremental changes to past budget without having to take into account changes in the numbers and needs of its pupils.
- The state allowed parents freedom to spend money as they wished in other aspects of their lives, but did not allow them to pay more than the state's allocation for their children to go to a better school.

A fundamental rationale of economics that justified the voucher systems is that systems that are designed to increase choice will also increase welfare. Vouchers were also claimed to democratise access to independent schools, while wholly private schools are the prerogative of the rich. Neoliberals also questioned the fairness of a system in which parents who send their children to independent schools also have to pay taxes for state schools that they do not use. (Schooling is quite different from defence, which conventional economics defines as a 'public good' because its outputs are indivisible.)

In the voucher system, from the start schools that charged a top-up would obviously have more money to spend per pupil, and hence be attractive to middle-class parents who could easily afford to pay more. But that also means the top-up schools have pupils that are easier to teach than the average, and the voucher schools pupils who are harder to teach than the average. This will result in the sorting of able pupils and good teachers to the top-up schools. Over time this strong 'club effect' sets in train a widening gulf in the capacity of pupils to benefit from each type of school.

The parents who care the most about their children's education will exit from voucher schools and send their children to a top-up school wherever they can, even if this requires forgoing luxuries and a struggle to live within their incomes. These parents will tend to have greater ability to assess the quality of their children's education and the performance of schools, and more capable and powerful 'voice' to put pressure on school heads and governors if quality were to falter. They will stay loyal to strongly performing schools and support teachers more. The children who end up in the voucher schools will have parents who either do not care about the quality of their children's education or who do care but do not have enough income to exit to a top-up school. The voucher schools will have to manage with less to spend on pupils who are harder to teach.

The fully independent schools will have the most socially exclusive peer group of pupils and parents with strong loyalties to them and the most powerful capabilities to secure good school performance through choice and voice. (As illustrated by the Royal Commission established in England, in 1864, to review the nine top independent schools – see Chapter 3.) The Friedmans' voucher system exemplifies Hirschman's powerful conceptual analysis in his classic short seminal book, *Exit, Voice, and Loyalty*, published 50 years ago, in which he explained why nothing was done about the appalling railway service in Nigeria that was used by the poor (the rich and influential used roads).[13] A damning but realistic one-sentence summary of systems with the characteristics of exit, voice and loyalty attributed to Richard Titmus is: 'Show me a service that only the poor use, and I will show you a poor service.'

The way that the voucher system was implemented in Chile resulted in the 'Penguin Revolution' of May 2006, when thousands of high school students protested on the streets wearing their black and white uniforms.[14] The country's voucher system distributed resources in much the same way as Julian Tudor Hart's inverse care law predicts for healthcare: available resources were *inversely* related to need.[15] Although the libertarian argument for vouchers with top-up fees was framed as letting parents spend more on their children's education, it proved perfectly designed to entrench inequalities in schooling – with consequential inequalities around students' 'meritocratic' eligibility for elite higher education.

7.2 Did England's quasi-market for schools deliver equity through choice?

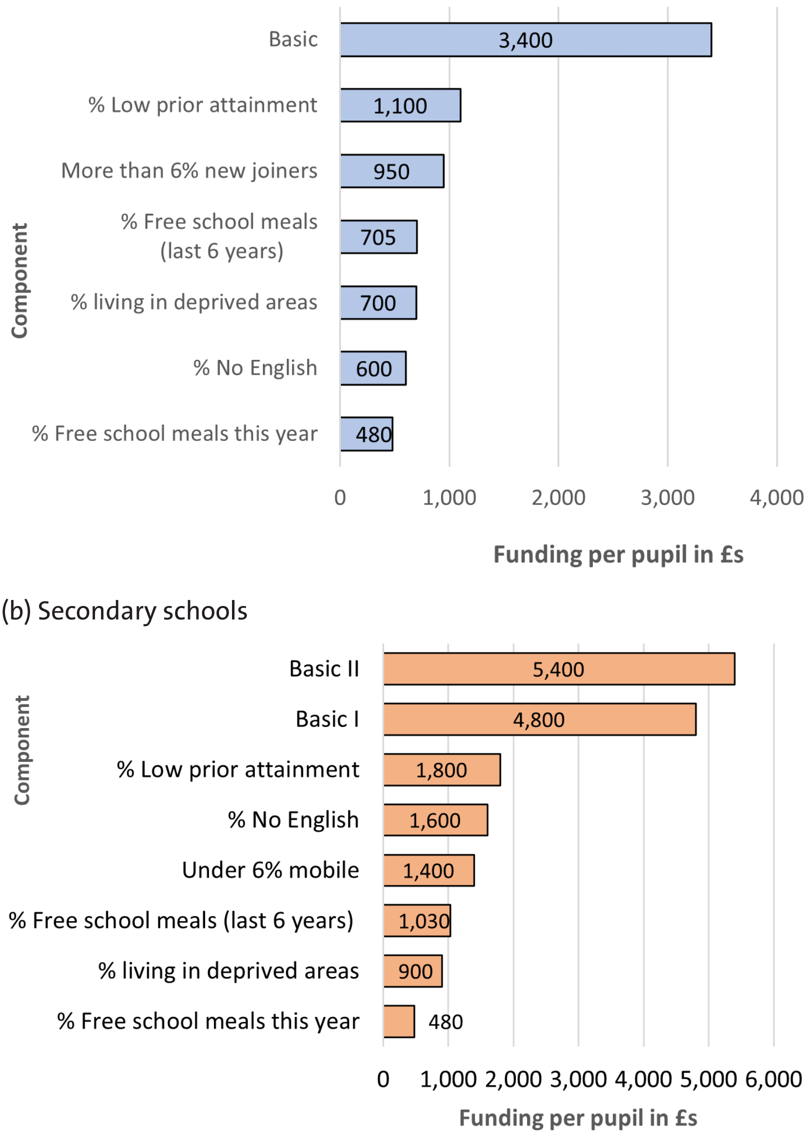
The Friedmans' arguments highlighted flaws in the traditional design of state schooling systems. Julian Le Grand proposed instead a quasi-market that retained attractive features of voucher systems (parental choice, autonomy and relating funding to the number of pupils) but was designed with an equitable system of school funding (summarised in the final column of Figure 7.1). The concept aimed to harness the invisible hand of the market without 'consumers' using their own money to pay for schooling. Instead, parents chose the school that was right for their child, and then the number of pupils that each school attracted determined their funding. Le Grand advocated augmenting the standard per capita rate of funding per pupil with a pupil premium for those pupils that are harder to teach.[16]

The Thatcher government considered introducing a voucher system for schools, but instead the 1988 Education Reform Act introduced a quasi-market in England and Wales in 1989.[17] Figure 7.1 indicates that, in addition to changes in choice and funding, the move to a quasi-system entailed replacing control by local authorities with regulation by central government. This included the introduction of a National Curriculum[18] and nationally set key stage testing at three points in school students' careers (over and above the mandatory public exams for GCSEs at (around) age 16 and for A levels or BTEC qualifications at (around) age 18).[19] School performance testing was justified by the need to provide parents with objective information on school performance and quality to help them make informed choices, to be accomplished by the government publishing rankings of all schools' performance in tests and public examinations in league tables. This huge surveillance effort was introduced from 1992 by the governments in England and Wales.[20]

Figure 7.2 gives the standard per capita rate in England's school funding formula, for 2023–24, for pupils in primary, junior and senior secondary schools (Basic for primary, Basic I and II for secondary), and the extra funding per pupil for those who are eligible for free school meals (in the year or over the past six years), who live in a deprived area (highest rate shown), with low prior attainment, or who lack English; and for schools with more than 6 per cent of pupils joining during the school year.[21]

Figure 7.2: England's school funding formula

(a) Primary schools



Source: Department of Education.[22]

The problem of designing a *proportionate* care law to match funding of a service to need has been extensively researched in healthcare.[23] That research shows that using a formula to estimate relative need works better the larger the population, and that, although we can easily identify indicators of increased need, how much extra funding ought to allocated cannot be determined by empirical research. Eligibility for free school meals (FSMs) is known to be a good indicator for household poverty, but there remains the problem of determining how much extra funding that ought to bring, which surely depends on the scale and degree of poverty of pupils in a school. This suggests that a need-based formula ought to be used to inform judgement by a local organisation held to account for delivering equity in the educational achievements of schools. Farquharson et al found that, despite the extra funding in England for children eligible for FSMs, their success rates were about half those of non-FSM students in achieving good grades at GCSE in English and maths at age 16, and two or more A levels at age 19.[24]

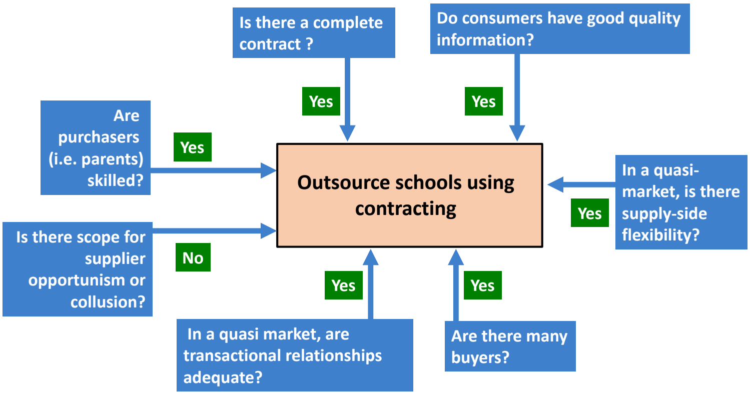
Carolyn Hoxby identified three requirements for a policy of competition between schools to be an effective policy instrument of improving the quality of schools for all students:

- Money follows parental choices.
- The heads of schools are free to manage their own resources and policies. And
- There is supply-side flexibility.[25]

The third requirement means that: new schools are free to enter the system and compete with existing providers; successful schools are free to expand; and failing schools lose pupils and close from reduced incomes.[26] Yet, in practice, governments in England have been unwilling to fund the spare school capacity needed to enable such a dynamic system to operate. Pressure on budgets results in funding the number of school places to match the number of school-age students. The Institute of Fiscal Studies explains how the lack of supply-side flexibility in England meant that poorly performing schools did not exit the market but became 'sink schools', with peer groups of children whose parents were neither interested in nor capable of using the system to send their children to a better school. That was Lynsey Hanley's experience for schools serving the Chelmsley Wood estate (see Chapter 4).[27] As Fred Hirsch argues (see Chapter 4), education is a positional good and derives value from its exclusiveness.[28] If a good school were to expand its intake, that could reduce the degree to which it is oversubscribed, and hence worsen public perception of its quality. In a system of school competition without supply-side flexibility, instead of parents choosing schools, it is schools who choose parents with children that are likely to be easy to teach and do well.[29] Recruiting better students from the outset reduces the school's costs of teaching, and improves its ranking within the government-mandated 'league tables' of schools' examination performance that are fundamental to quasi-market systems.

Figure 7.3 applies Oliver Williamson's criteria for analysing transaction costs (see Chapter 6) to contracting for schools. This quasi-market has low transaction costs on five of the seven criteria: there is good information (from

Figure 7.3: Requirements for an effective quasi-market for schools on Williamson's criteria



Source: Author.

OFSTED reports and league tables of exam results); scope for opportunism is constrained by inspections and testing; well-educated parents are skilled purchasers; the contract is specified by the National Curriculum; and there are many buyers (parents). The causes of high transaction costs come from wanting our schools to do more than 'teach to the test' in a transactional relationship; and the fundamental problem of 'site asset specificity'. To put this more simply, parents want their children to go to locally accessible schools. This inevitably restricts the degree of competition in towns and cities, and creates monopolies in rural areas, especially at secondary level.[30] It also makes it problematic to close a failing school.

Burgess et al found that, after the introduction of England's policy of school choice in 1988, geographic proximity continued largely to determine access to high-performing schools that were oversubscribed.[31] This was because proximity was the main criterion used in selecting their pupils. (Julian Le Grand acknowledges this problem in his plaintive observation: 'If real choice were available, this would reduce the influence of simply living near good schools, and hence go some way towards rectifying this imbalance.'[32]) Houses near good schools sell at a premium.[33] In England, the longer-term consequence of the abolition of the 11-plus exam and the development of comprehensive schools was to change how students got into secondary schools from selection by exams to instead selection by the price of property. In 1956, Charles Tiebout described where people choose to live as 'the local public-goods counterpart to the private market's shopping trip'.[34]

One way to make the school systems more equitable would be to move to a lottery system for all school places. Burgess et al recognise that this would face a hostile reception from families who have struggled to pay more for their house to ensure their children have access to a good school (England's equivalent to the pressure on parents in Chile to find the money to pay for their children to go to a voucher school). Introducing a lottery would mean that struggle had been in vain and reduce the value of their house. So, instead, Burgess et al propose only a proportionate change in which a percentage of places, say 20 per cent, would be allocated by a lottery, with 80 per cent being allocated as now.[35]

7.3 England's search for an optimal and equitable university system

A 2017 World Bank report on higher education (in Latin America and the Caribbean) made a clear case that mass higher education is vital for the futures of children across all countries:

> In the pursuit of growth and equity, no country can afford to ignore higher education. Through higher education, a country forms skilled labor and builds the capacity to generate knowledge and innovation, which boosts productivity and economic growth. Since acquiring greater skills raises a person's productivity and her expected earnings, a good education system is also the basis for achieving greater equity and shared prosperity on a societal level. Particularly in societies mired with persistent and profound inequality, high-quality education can act as 'the great equalizer': the ultimate channel of equal opportunities, and the ultimate hope for parents who long for a better future for their children.[36]

Under the post-war Attlee settlement there was a generous system for those going to university in which governments paid tuition fees and grants (on a means-tested basis). Although that system funded well-off households, it played a vital role, until the late 1970s, in expanding the numbers of working-class children going to university. LSE academic Nicholas Barr identified two disadvantages of funding 'free' undergraduate university education through taxes. First, it is paid for by taxpayers who may never have been to a university and whose children may be excluded. (The same argument applies to 'free' selective grammar school education.) Second, it has to compete in claims for future spending with all other central government priorities – for example, the NHS, social care, relief of poverty, schools, defence, and law and order. There is an important spillover benefit from university education to a country from having well-educated citizens, and this is the economic argument for a government subsidy – but one that has to compete for public funds with other claims on the Exchequer. The normal outcome from tax-based finance will be tight budgetary constraints that constrain the university sector from improving its quality or growing in size or both. Reform critics (both neoliberals and many 'New Labour' voices) argued for introducing tuition fees. The Blair government, in 1998, introduced low annual tuition fees: £1,000 for students whose parents were in the top third of the income distribution, £500 for the middle third of parents, and no fee for the bottom third. Students financed their living costs with income-contingent loans (which graduates repaid with 9 per cent of their income when earning more than £10,000 a year).[37] There were some maintenance grants for students from the lowest-income households.

In England, the UK's self-appointed elite Russell Group of universities successfully lobbied the Blair government in 2003 to increase the annual tuition fee to a new level, which was set at £3,000 a year.[38] Their justification was that the change was vital to arrest the decline of England's elite universities in international rankings. In the QS World University Rankings for 2004, there were seven British universities in the top 50: six in England and one in Scotland.[39] (The reliability of those rankings was, however, questionable because of serious weaknesses in their methods and data.[40]) The Blair government (but not all Labour MPs) was persuaded by Barr's argument for financing the increased tuition fees by income-contingent loans.[41] Barr argued that the three desirable objectives of a university system are high quality, optimal size, and equity of access by ability to benefit (and not ability to pay for it). He developed a lucid exposition of the economic logic of financing mass undergraduate university education by using income-contingent loans.[42] This is because, as the people who are awarded degrees benefit the most from them, they ought to bear most of the costs (although there are also national welfare spillover gains). Private arrangements for loans will not achieve equity in access, because most undergraduates lack collateral (unlike in a mortgage for a house). Hence Barr's elegant solution requires governments to organise a system of income-contingent loans for undergraduates to finance their tuition with the promise that:

- Tuition fees charged by universities would vary with each institution's perception of the quality and nature of what it is offering.
- Competition between universities to attract students would create incentives to raise quality, with student choices weeding out, or leading to reform of, weak degrees, and constant innovation being encouraged.
- The size of the sector would be determined by choices made by students and universities. Government's role is to steer that market with incentives to attract more students to subjects deemed 'worthy' or national priorities, such as for science, technology, engineering and mathematics in England.
- Finally, the total costs of undergraduate education would be financed mainly by loan repayments, with only limited financial support from taxpayers to recognise the positive national spillover benefits.

The Blair government was able to win the vote in the Westminster Parliament for this change, in 2003, in *England*, but only with the support of Labour MPs from *Scottish* constituencies (who escaped scot-free from any loss of support from their constituents, who were unaffected).[43] In the 2010 general election campaign in the UK, Nick Clegg, the leader of the Liberal Democrats, signed a pledge to vote against any increase in the £3,000 tuition fees in England. Moreover, the Party's manifesto made a commitment to 'Scrap unfair university tuition fees for all students taking their first degree' with 'a financially responsible plan to phase fees out over six years'. And every Liberal Democrat MP was photographed for their election leaflets alongside the fees pledge.[44] However, when Nick Clegg became deputy prime minister in the Conservative–Liberal Democrat coalition government (formed in 2010), he led the Liberal Democrats in voting to *treble the maximum annual fee* for undergraduate education, in England (from £3,000 to £9,000). Liberal Democrat support in opinion polls fell precipitously from 23 per cent in 2010 to around 7 per cent after this change. At the next general election, in 2015, the number of Liberal Democrat MPs fell from 57 to 8 and Nick Clegg resigned as their leader.[45] In the 2017 general election, Nick Clegg lost his seat for the constituency of Sheffield Hallam. To continue his career, he moved to Facebook, where he rose to become president of global affairs in 2022.[46] After the fee increases, the QS World University Rankings for 2022 shows improvement in the rankings of some of the eight British universities in the top 50 as compared with those of 2003.[47]

Figure 7.4 compares the desired and actual outcomes of the English market for undergraduate university education. It shows that the English system allowed universities ample scope for gaming – a form of behaviour that Williamson describes as opportunism. This includes inflating the proportion of students being awarded first-class degrees, and making 'conditional unconditional' offers (a practice now been banned by the government's regulator, the Office for Students). Another disappointing outcome of the market for universities has been the lack of innovation. John Muellbauer and David Soskice identify the continuing absence of two-year, vocationally oriented degrees and the dominance of narrow, specialised degrees. They also see weaknesses in professional education for business, public policy, law, medicine, IT and engineering, and in the development of biogenetics and IT with close links to start-ups.[48] Another disappointment is the lack of flexible options for part-time study so that people can acquire skills along a time path of their choosing. Farquharson et al found that:

> the UK has one of the lowest rates of adults taking advanced vocational qualifications in OECD countries, and spending on adult education in 2019–20 was nearly two-thirds lower in real terms than in 2003–04.[49]

Figure 7.4: The desired and actual outcomes of the English market for undergraduate education

Desired outcome	Actual outcome
Tuition fees should vary according to the quality of a university and a course.	The maximum fee has become the fee that all universities charge: e.g. the tuition fee of £9,250 was charged for 2022/23 for accountancy at the University of Bolton and for accounting and finance at LSE.[50]
Good information is available to students (and parents) on quality and costs.	Information on the quality of degrees and universities is available in regulators' annual league tables (covering teaching and research separately) and various private sector guides (giving different results). Students know tuition fees, but not what they will pay back because of uncertainty about their future incomes and the complexities of the scheme.
Competition drives up quality, and drives out weak degrees.	Two main tactics by universities have undermined this mechanism: 1. In 2019, according to the BBC, 'A record one in four university applicants received a "conditional unconditional" offer'.[51] These applicants were guaranteed a place on a degree course (not conditional on their performance at A levels), provided they made that university their first choice – a practice no longer allowed by the regulator.[52] 2. The proportion of first-class degrees awarded doubled over eight years: from 14 per cent in 2009/10 to 28 per cent in 2017/18.[53] A detailed study by the Office for Students found that, e.g., 'graduates who entered higher education with the equivalent of grades CCD or below at A-level were almost three times more likely to graduate with first class honours in 2016–17 than in 2010–11'.[54]
Competition encourages innovation.	Innovation has largely been absent (see main text).
No unplanned government debt.	At the end of March 2021, the total value of outstanding student loans was £160 billion. Government projections show this will increase to £560 billion (at constant 2020/21 prices) by the middle of the century. It is officially expected that only 25 per cent of loans will be fully repaid.[55]

Figure 7.4 makes clear that the system financed by income-contingent loans has failed to act as a price mechanism in which universities charged fees that reflected the quality of their degrees, and has accumulated vast public debt. In 2021, the payment of debt interest on the student loan debt of

£160 billion was £6.4 billion (at the annual interest rate of 4 per cent set by the Bank of England).[56] That was 16 per cent of public expenditure on primary and secondary education in 2020/21 (£41 billion a year).[57]

If the fee charged signalled what students are expected to repay, then a low-ranked university that charges high fees for its low-quality degrees would attract few applicants. The system of income-contingent loans is designed to encourage the brightest students to apply to the best universities, regardless of the financial support their families can afford. That design also encourages low-ranked universities to charge the maximum tuition fees. If their graduates with weak degrees earn less than the income threshold, they do not have to pay back their loans. If a university were to charge low fees, that would signal to potential applicants that it recognises its degrees are of low quality. The system of income-contingent loans, which insures graduates against the risk of not earning enough to pay back their loans, brings the problem of moral hazard, as when we take our car to be repaired after a bump and we are asked: 'is this an insurance job or are you paying yourself?' In England, after the 2010 election, the intrinsic problem of moral hazard was exacerbated by the demand of the Liberal Democrats in the governing coalition that the income threshold for the repayment of the tuition fee loans should be raised so as to try to allay public criticisms of them for having had to completely abandon their promises on fees.[58]

Furthermore, fees that are published do not signal the future liabilities of graduates in a system of income-contingent loans that aims for fiscal neutrality. That requires high-earning graduates from elite universities with high-quality degrees to pay back more than the borrowing costs of their own fees. Only in that way can total repayments cover the costs of the loan scheme. Hence the fees charged by the best universities only indicate in part the future liabilities of their graduates.

Pressure has mounted on the UK's elite universities to take more children with lower educational achievements from lower social classes because it is well known that the achievements of school leavers do not fairly reflect their abilities. There is strong evidence that for children from low-income households the key obstacle to realising their potential through university education comes not from fees and loans but from their lower prior educational attainment.[59] That is why Barr's review of the 2012 reforms to undergraduate funding support in England described as 'unspeakable' the decisions by the Cameron–Clegg coalition government to abandon or curtail three policies launched under Blair that were directed at improving educational attainment by children from disadvantaged backgrounds.[60] First, the Education Maintenance Allowance was abolished. This was launched in 1999 to provide up to £30 per week for students from low-income households to encourage them to stay in education at ages when it was no longer compulsory.[61] Second, the Aimhigher programme was scrapped. This was established to widen participation in higher education, mainly focused on pupils in school years

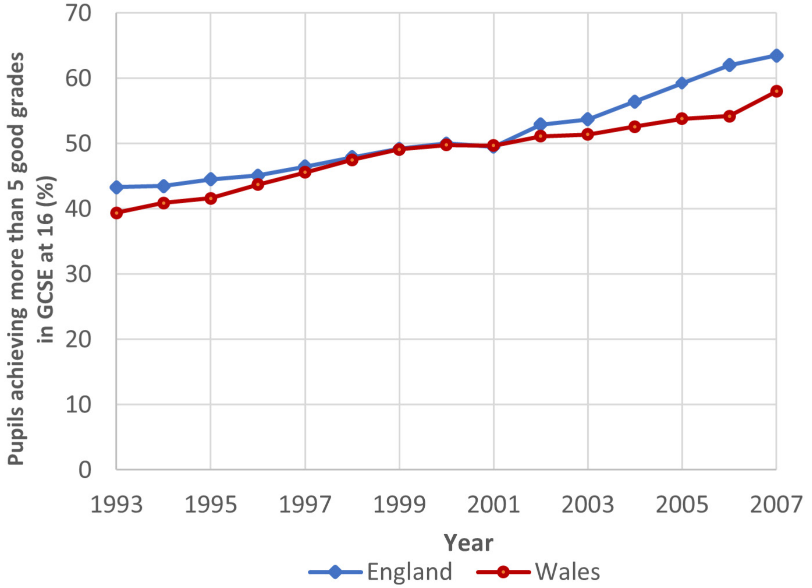
10–12 (ages 14–16) – for example, offering summer school experience on university campuses, master classes, campus visits, guest lectures and mentoring.[62] Third, cuts were made to Sure Start, launched in 1999 as a programme of early interventions for the under-fives in the 20 per cent most deprived areas in England.[63] Evaluations of these schemes found that none of them was 'transformative'. But, given the scale of the challenge posed by educational inequalities, that was to be expected. What was so disappointing is the way these initiatives were abandoned or curtailed without learning from them how to deliver better access to higher education for the key groups that they targeted.

7.4 Back to the Attlee settlement?

Would it therefore be a mistake to go back to something closer to the Attlee settlement? To answer this, consider how that played out when the devolved governments in Wales decided to do that for schools and Scotland for university undergraduate education. After devolution (in 1999), following pressure from the National Union of Teachers, and a public consultation, the Welsh government stopped the publication of school league tables from 2002.[64] There were no other major policy differences between England and Wales. Figure 7.5 shows the consequences of that 'natural experiment' in the percentages of schoolchildren achieving five good grades (from A to C) at GCSE. After 2002, schoolchildren in Wales did not improve at the same rate as those in England. Burgess et al made a careful econometric study based on matching schools in England and Wales.[65] They found that, for every year that Wales did not publish a league table, a pupil in Wales would *lose two GCSE grades* compared with a similar pupil in England. If Wales wanted to match its schools' performance to those in England, they estimated that its class sizes would need to be *30 per cent smaller*. These differences were not explained by 'gaming' in England ('teaching to the test'). Wales was found to be much worse than England in the different tests used by OECD in its Programme for International Student Assessment (PISA). The PISA scores of school performance at age 18 for 2018 have significantly higher mean scores for science and mathematics in England than the devolved countries, and the scores for reading in Wales were significantly lower than in the other countries of the UK.[66] Nor did markets cause the disparity in GCSE grades between England and Wales, because many schools in both countries were in rural areas where there was no secondary school competition.[67]

The Burgess et al study also showed that the Welsh pupils who had lower performance than their English peers were from poor families going to the schools with the poorer outcomes. Stopping publication of school league tables in Wales had no significant impact on the characteristics of those going to the best 25 per cent of schools.[69] A study comparing GCSE results

Figure 7.5: The percentage (%) of students achieving more than five good grades in GCSE at 16 in England and Wales, from 1993 to 2007



Source: Office for National Statistics.[68]
Note: The Welsh Assembly Government stopped the publication of school league tables from 2002.

between England and Wales by Joanne Cardim-Dias and Luke Sibieta also found that in England the percentage of students eligible for free school meals who achieved five good grades increased from 50 per cent in 2006 to over 60 per cent from 2010.[70] But in Wales the same improvement was from below 20 per cent in 2006 to below 30 per cent in 2012. This dramatic impact of publishing information on school performance was not from choice in a market but making schools accountable to those living locally; in that way, it put pressure on schools shown to have poor results to improve.

In 1999, university financing for the devolved nations was transferred to the Scottish and Welsh governments. In 2001, the Scottish Parliament replaced the up-front tuition fee with a 'graduate endowment fee' of £2,000, to be paid after graduation to fund bursaries for poorer students from Scotland going to Scottish universities.[71] In 2008, when the Scottish National Party led by Alex Salmond won a majority in the Scottish Parliament, they won the vote to abolish the 'graduate endowment' so that undergraduate tuition became 'free' for students from Scotland going to Scottish universities.[72] (Those living in the other countries of the UK paid fees at the same level as universities in England if they went to Scottish universities and when the UK was in the EU, under Treaty obligations, students from any EU country except England, Wales and Northern Ireland were entitled to free tuition in Scottish universities.) On 18 November 2018, which was Alex Salmond's penultimate day as first minister in the Scottish Parliament, he unveiled a commemorative stone at Heriot-Watt University inscribed with his March 2011 commitment to 'free' tuition at university: 'The rocks will melt with the sun before I allow tuition fees to be imposed on Scottish students.'[73] In 2020, a spokesperson for Heriot-Watt University said:

> Following consultation with the Heriot-Watt University Student Union, a decision has been taken to use the current location of the commemorative stone for an alternative public art work which will appeal to our international student community. The stone will be carefully looked after until an alternative location is found for it in future.[74]

The annual cost of free tuition in Scotland was estimated in 2019 to be over £800 million.[75]

What happened to school leavers' access to universities in England and Scotland? A 2019 study of access to higher education by Riddell et al compared Scotland with the other UK countries.[76] In 2010, Scotland had the lowest percentage of 18-year-olds going to university of all the UK's constituent countries (24 per cent compared with 30 per cent in England) and was only the only country where the numbers had fallen (by 2 per cent in 2013), compared with a 2 per cent increase in England. Riddell et al concluded that Scotland's policy of abolishing tuition fees had resulted in a lower proportion of Scottish students from the lower social classes going to universities compared with their English counterparts.[77] A 2019 study of England by Murphy et al found that in England the percentages of students enrolling in universities from the most disadvantaged quintile of wards increased from 10 per cent in 2004 to 20 per cent in 2016, and that there was little change for the proportion of students coming from most advantaged quintile of wards.[78]

Germany also experimented with introducing university fees. In 2005, its Federal Constitutional Court decided that the federal law that banned tuition fees for undergraduate education was unconstitutional. In 2006 and 2007, seven of Germany's 17 regional governments (*Laender*) introduced annual tuition fees of about €1,000 a year, with a comprehensive and generous loans programme that exempted many students (for example, 30 per cent in Bavaria). But, by 2014, all seven *Laender* had abolished tuition fees, on the grounds that they deterred high school graduates from applying to universities. A careful econometric study, by Kerstin Bruckmeier and Berthold Wigger, concluded, however, that the alleged deterrent effect of tuition fees had 'no solid empirical basis'.[79]

Conclusions

In Chile, the voucher system for schools delivered extremes of social segregation – by design. In England, the introduction of the quasi-market with additional funding for disadvantaged children was intended to remedy the selection by house price, which followed from the implementation of comprehensive schools in England and Wales in the 1960s. For the quasi-market information is generated on school performance, in England, from OFSTED reports and league tables of exam results. But the real value of this information is not so much to enable children to travel to better schools, but rather to create a system of 'Tiebout choice' in which the benefits of good local schools are capitalised on with increased house prices and local rents in their catchment areas.

The 2022 examination of inequalities in education in the England by the Institute for Fiscal Studies (IFS) reports this truly dispiriting finding:

> In virtually all OECD countries, literacy and numeracy skills are substantially higher among young people aged 16–24 than among the older generation (aged 55–65). England is the exception to the rule: while its 55- to 65-year-olds perform relatively well, especially in literacy, young people in England have not improved on these skills at all. That has left England ranked 25th out of 32 countries in terms of the literacy skills of its young people.[80]

In the UK's financialised housing market, good schools have become more accessible to affluent parents who are closely involved in the schooling of their children. Parents who are poor tend to have access to poorly performing schools with higher concentrations of problem students, lower parental support, and poor local environments. The 'natural experiment' from the government in Wales abandoning publication of league tables of exam results shows the power of reputation effects in generating non-market incentives to improve the performance of public services and is explored further in the Afterword to this book.

England's marketised system of competing universities financed by income-contingent loans aimed to optimise the size and quality of the sector, encourage innovation, be fiscally neutral and enable equity of access by ability. The outcomes have been disappointing. There are too many universities of low quality charging high fees that are not repaid by their graduates. There has been a lack of innovation. The projected debt of over £500 billion by 2050 entails annual interest payments of around £15 billion, which could be better spent on helping disadvantaged children. Scotland's system of 'free' tuition costs around £800 million, which imposes a similar per capita tax burden to England's on their populations.

Introducing competition between publicly funded providers of school and university education has proved to be far from the simple matter that Shleifer and other neoliberals foresaw. Yet, if the difficulties with realising neoliberal and 'new public management' ideas in education seem considerable, they look to be minor flaws when compared with the devastating impact of markets in healthcare – considered in the next chapter.

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