Do UK universities collude in ways that inhibit genuine competition?

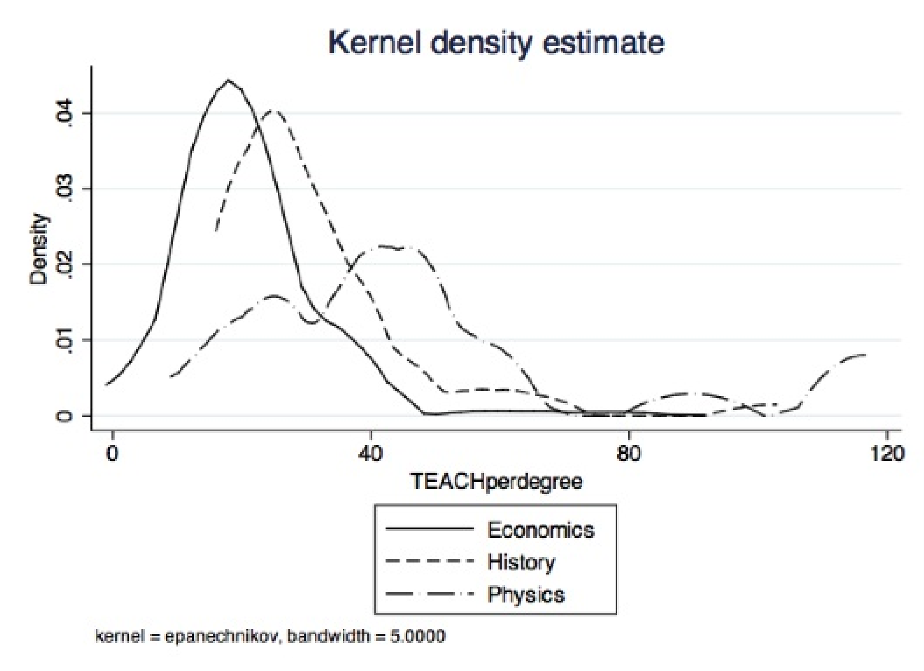
In July 2017 a former minister, Andrew Adonis, suggested that UK universities might be running a cartel: 'There appears to be strong prima facie evidence of a cartel. It's short-changing a number of students. They are paying for more than the actual cost of their degree.' In this blog post we attempt to clarify the situation. Do universities compete? Are students paying too much? Is this because of a cartel?

Is the higher education market competitive?

We are in no doubt that in many respects British universities (and individual academics) operate in a competitive environment. The most prestigious universities compete in a truly global market, as do individual academics. Students also increasingly compete across, not just countries but, continents for places at these universities. However, this is not the same as saying there is a competitive market for teaching. Nor does it imply students receive value for money.

In our recent paper we found no relationship between how much teaching students receive and the price they pay – an observation which is hard to reconcile with the view that this market is competitive. We also found marked differences between disciplines in how much teaching students receive during the three years of their degree, as Figure 1 shows.

Figure 1. Distribution of Total Equivalent Adjusted Contact Hours (TEACH) by subject



Source: Huxley et al, 2017

The findings in our full paper are not *ipso facto* evidence of a cartel, however it does provide *prima facie* evidence that universities possess some form of market power.

Market power

The UK government's view is that the absence of competition is the result of government rather than market failure. Market power is the result of number controls and regulatory barriers to entry – and policies to address these concerns were put forward in 2011 and 2016 white papers. In the absence of quantity and price controls it would certainly appear that the UK's approximately 150 universities should provide robust competition.

Unfortunately statements of this kind are based on a naive understanding of what determines the 'intensity of price competition'. We know from the application of game theory to industrial organisation that the number of firms in an industry is a misleading indicator: competition depends less on the number of firms than on how those firms interact.

In health care markets Martin Gaynor, Carol Propper, and others have shown that the welfare of patients depends on precisely how hospitals compete and this requires a detailed understanding of how the market works and a sophisticated approach to regulation. By contrast higher education policy has been driven by a 'Chicago School' belief that the removal of number controls will on its own solve the problem. The reform of higher education markets must be informed by recent developments in the theory of industrial organisation coupled with a willingness to regulate.

Cartels

Cartels are groups of independent firms in the same market who increase their collective profits by explicit agreements to collude. This can take the form of fixing the price or quality of the good or service they provide. In the context of universities, this would require VCs to actively discuss and agree to set their fee at a specific amount – or agree to offer minimal teaching. Given the government set price cap of £9k, collusion over teaching offerings would be our concern.

Even Andrew Adonis will probably admit that explicit collusion between high and low ranked universities is unlikely – for one thing, they are operating in different markets. Vice chancellors of universities in the same market do meet and discuss university operations, and there are several mission groups (e.g. Million+, Russell Group, etc) which facilitate this "positive dialogue and discussion between [university] leaders". But we are doubtful that these bodies fix prices or agree how best to short-change students on teaching. Nor do they need to – the informational market failure renders explicit collusion unnecessary.

Information

It has long been understood that lack of information can lead to market power. If students can't observe what is being offered, they can't make informed choices. Instead they must take the plunge with their eyes closed. Universities were lucky: it turned out graduates are in such high demand that the return from studying on your own, with minimal teaching, is more than the lifetime repayments made on a £27k tuition fee loan. This is what we believe is going on – not strictly a cartel – but students are being exploited. If the differences in teaching we have observed between history and physics had been precisely measured and therefore observable we think it is unlikely that a uniform price could have been set across all subjects.

Without being able compare the teaching offered by different HEIs, students can only make choices on what they can observe. Pam Tatlow (the head of the Million+ lobby) encouraged students to ignore our insistence on making information on teaching available, saying it was 'too complicated'. It is not. Students are entitled to this information to ensure they receive value for money. They need to be able to verify that universities have kept their side of the bargain. As the Browne review put it: when students 'spend more [they should] get more'.

We have been trying to highlight this informational market failure for some time (e.g. here and here), but unfortunately the coalition government paid no attention. So we decided to collect the information ourselves to show it could be done. The current government has begun to address the problem and asked HEFCE to investigate teaching intensity. HEFCE even asked to licence our data because they had never collected data on teaching arrangements at British universities. It is not just prospective students who know nothing about how much we teach – even the body responsible for monitoring the performance of the sector has none of the relevant information!

So is there a cartel?

The introduction of tuition fees was supported by politicians because for once principle trumped expediency. Unfortunately universities failed to honour their side of the bargain, and the information portal contains none of the information intended by Browne. The result is that because students do not have access to readily available information which can be used to compare the teaching across universities, the current arrangements are just as bad for students as if there was a cartel. The lesson is simple: If universities behave like monopolists they must be regulated like monopolists.

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Notes:

- *This blog post is based on the authors' paper Class Size at University, in Fiscal Studies – The Journal of Applied Public Economics, July 2017.*
- *The post gives the views of the authors, not the position of LSE Business Review or the London School of Economics.*
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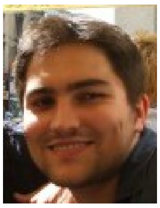

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