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Are we spending too much or too little on higher education?

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Abstract: The recently announced spending cuts on higher education have been met with much debate and criticism. This paper provides a statistical representation of the UK's public expenditure on education, relative to its European contemporaries. Findings suggest that the UK is indeed spending too much on higher education, when associating costs with efficiency. The findings suggest that teaching standards have not been keeping up with the rate of expenditure on higher education, thus suggesting that the UK is indeed spending too much on higher education. However, research has also shown that the UK has become reliant on the present level of expenditure on education and will in fact benefit from a higher level of education expenditure, providing the British labour market with higher global competitiveness. This paper concludes with a commentary, presenting that the UK needs to maintain its world-leading quality of education whilst downsizing its public sector in favour of reducing its sizeable budget deficit.

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1. Introduction

The UK's newly elected coalition government recently revealed spending cuts in education to cope with the country's towering budget deficits (Richardson, 2010), leading to a spate of dispute over these changes – are we spending too much or too little on higher education?

This essay will review said conflict by providing an in-depth investigation supported by theoretical hypothesis and empirical evidence. A conclusion regarding the state of the UK's public spending on higher education will also be drawn through critical analysis.

2. Excessive spending on Higher Education

Academics in favor of the cuts in expenditure on higher surmised their supposition backed with empirical data and behavioral studies. This section will discuss the hypotheses of these academics, which justify the postulation that the UK's expenditure on education is excessive.

2.1 Statistical Data

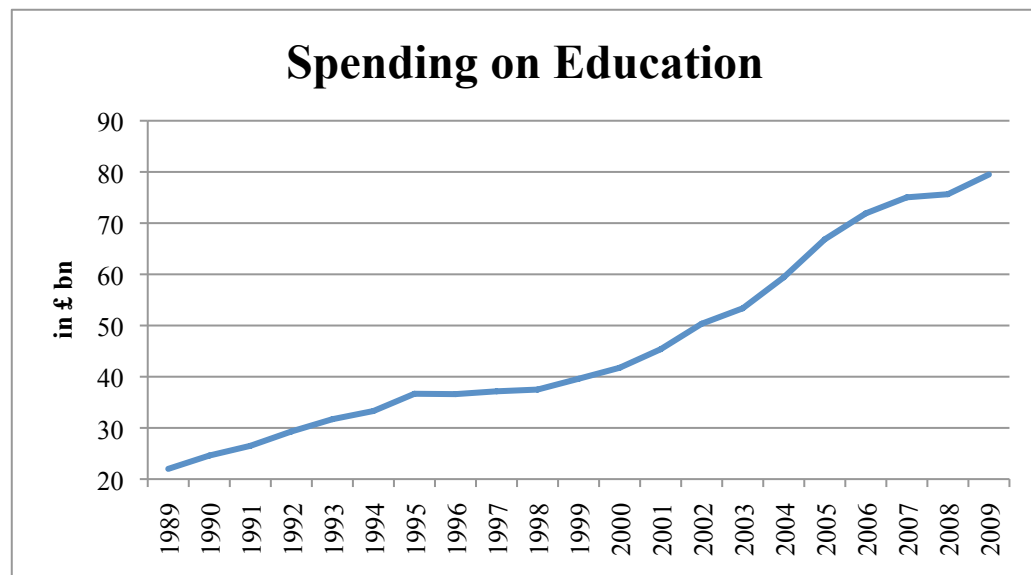


Figure 1: Public expenditure on education in the UK between 1989 and 2009 (UK Public Spending, 2011)

Statistical study reports a rising trend in the UK's expenditure on education. This consistently rising trend in expenditure on education in the UK can be observed in Figure 1. Given the dire straits of the UK's economic situation (ONS, 2010), the government simply cannot afford to sustain this trend without economic and political implications.

Critics reason that rising costs are translated into quality education infrastructure – arguably beneficial to the quality of the workforce in the long run (Trombley, 2003). This notion is supported by international recognition of the UK's high standards in her education system (BBC, 2007). Therefore, many have accepted the necessity of rising costs in remaining competitive on an international scale. However, there have been conflicting studies, supported by empirics, contradicting the notion of rising education standards.

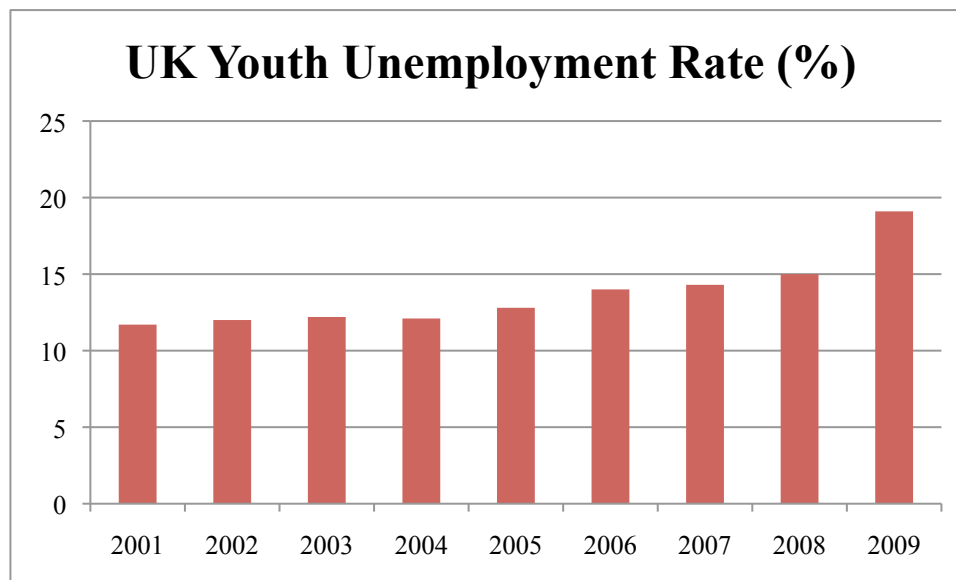


Figure 2: Trend of Youth Unemployment Rate in the UK between 2001 and 2009 (Eurostat, 2011)

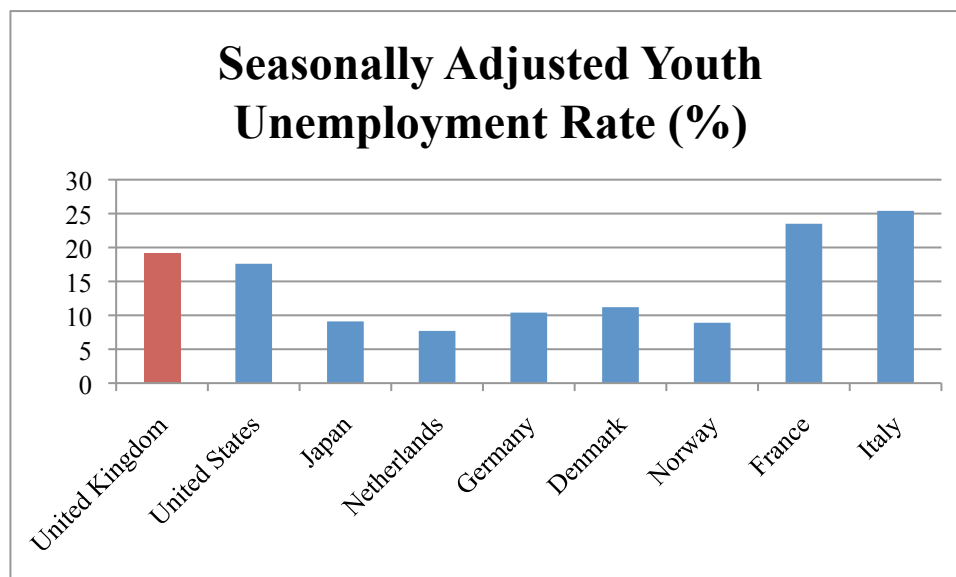


Figure 3: Youth Unemployment Rate in Selected Countries (Eurostat, 2011)

Despite rising costs in the education sector, the quality of the UK's education system has been criticized to be in decline during the recent years – reflecting falling standards in education rather than the afore mentioned improvement (Loveys, 2010). Substantiated by a rising trend of youth unemployment in the UK, the present education system is clearly costing more than it's worth, given its failure to reverse said trend (Figure 2). Further analysis of youth unemployment rate also imply weakening competitiveness of the UK's labor force in the international market, whereby the UK is among the top countries in youth unemployment, be it within the Euro zone or among dominant global markets (Figure 3).

An OECD report (OECD, 2009) specified that the UK is spending significantly more on education per student in comparison to other OECD¹ countries. The same report draws comparison with Germany, which achieves a similar standard of educational performance yet spending only roughly 75% of the UK's expenditure per student. This demonstrates the extravagance of the UK's expenditure on education. Reducing expenditure to Germany's level of spending while maintaining present education performances would provide roughly £10 billion per annum in savings (OECD, 2009). Thus, there is clearly potential for the UK to cut back on education expenditure given its excessive investment, which has produced inadequate returns.

¹ Organisation for Economic Co-operation and Development (OECD, 2011)

2.2 UK's high budget deficit

The magnitude of the UK's budget deficit has been well documented (ONS, 2010) – presently the highest economic priority in the UK. Amongst other avenues of public expenditure, education was slated to see substantial spending cuts. Despite widespread objection, the motion of spending cuts in education was put forth in an effort to reduce the UK's outstanding public debt (BBC, 2010).

Part of a larger downsizing scheme shifting financial liabilities away from public funds, cuts in expenditure on education are expected to salvage the UK's current budget deficits (BBC, 2010). Given the grim state of the country's finances, it is imperative to implement cuts in spending to trim the sizable public debt. Therefore, the present state of the economy justifies the notion that the UK is in fact spending too much on higher education.

3. Insufficient spending on Higher Education

Critics of the cuts in expenditure on higher education support their notion explaining the possible detriments of cutting expenditure on education. This section will discuss the hypotheses of these academics justifying the postulation of the UK's expenditure on education being inadequate.

3.1 Ill effects on the British workforce

Many academics believe cuts in spending on higher education will be detrimental to the quality of the UK's workforce in the long run (Graham, 2010). One of these impacts would be the loss in investment on educational infrastructure (Crampton, 2009). The benefits from educational infrastructure to teaching standards have been sufficiently established during recent years (QAA, 2010). Failure to finance advances in infrastructure could compromise the international competitiveness of the UK holistically.

The quality of the workforce may also diminish when the increased costs of higher education deters potential students. With higher tuition fees, less people will be capable of affording higher education, inherently lowering the quality of the workforce. The increase in tuition fees, in addition to the removal of previously government-funded scholarships resulted from spending cuts, increases the financial burden of higher education substantially, deterring students from tertiary education (BBC, 2010). The resultant effect is an inherent weakening in the quality of the workforce. Furthermore, competition for places in universities has also escalated with the increase in foreign students studying in British universities (Guardian, 2009), further impeding the prospects of British students seeking higher education.

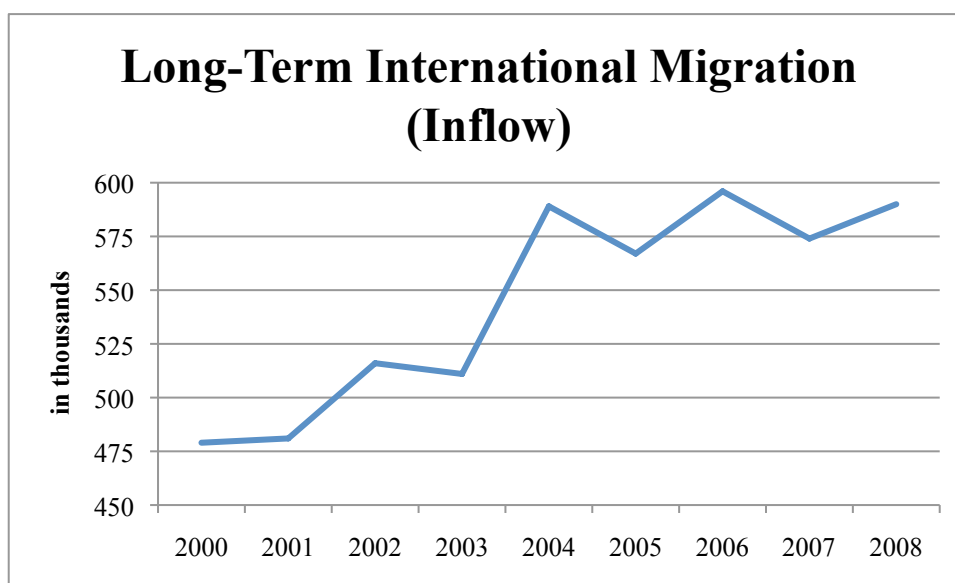


Figure 4: Number of long-term immigrants into the UK between 2000 and 2008 (ONS, 2009)

From a social viewpoint, the employability of British workers may also be compromised. There is a clear rising trend in the number of long-term immigrants in the UK over the past decade (Figure 4). This trend, expected to persist (BBC, 2007), would certainly provide competition in both aspects of employment and housing. With labor quality on the decline, British workers may find themselves outcompeted by immigrants who demand lower wages (Ford, 2010). It is therefore vital that the government continue funding the education sector to keep British workers competitive in the global market. With an influx of immigrants, inflation on goods and services will also be imminent. An independent report looking into the role of higher education in economic success states that upgrading work skills through investment in higher education is essential for British workers to remain competitive in the labor market (BBC, 2009). Thus, it is reasonable to propose that the UK is spending too little on education, given that the global competitiveness of the UK's workforce and education system should take precedence.

3.2 Decline in industry standards

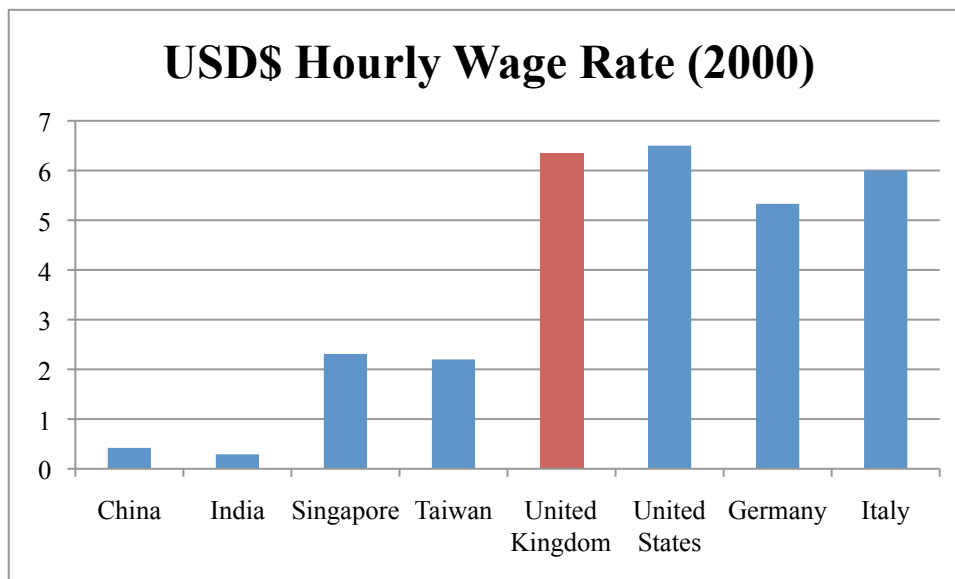


Figure 5: Hourly wage rates on selected countries (Ashenfelter and Jurajda, 2001)

The global competitiveness of British industries may also be at risk with a decline in labour standards. The quality of the UK's workforce, already on the decline (Moore, 2010), must remain competitive in accordance to her comparatively higher wage rates. Ashenfelter and Jurajda (2001) explain how the UK has a higher average wage rate than most other countries using the Big Mac Index², depicting the hourly wage rates of various countries in US dollars (Figure 5). The UK boasts of an hourly wage rate almost on par with that of the US. Though marginally higher than other European countries, the concern is directed at the wage rates of countries outside Europe, of who make up a substantial proportion of immigrants entering the UK seeking employment (Slack, 2008). Job competition, especially for low paying jobs, would be intensified by the influx of foreign workers, jeopardizing the job security of British workers in the UK. Given the economic significance of maintaining high labor productivity, it is essential that the UK sufficiently finance its education sector.

While capable of providing short run cost-savings, the notion to cut spending on education is unfavorable to the coalition government. Doing so affects political stability and incurs social problems, prompting public retaliation, which recently escalated into violence (Blake, 2010). Social unrest and political instability hinders business confidence and commerce prospects, resulting in an overall loss in foreign investment and bearish market conditions. To avoid such undesirable consequences, the UK cannot reduce spending on education.

² An index, based on the prices of Big Mac Burgers in the respective countries, to measure the purchasing power parity of various exchange rates (The Economist, 2011)

4. Critical Analysis

4.1 Expenditure on Education

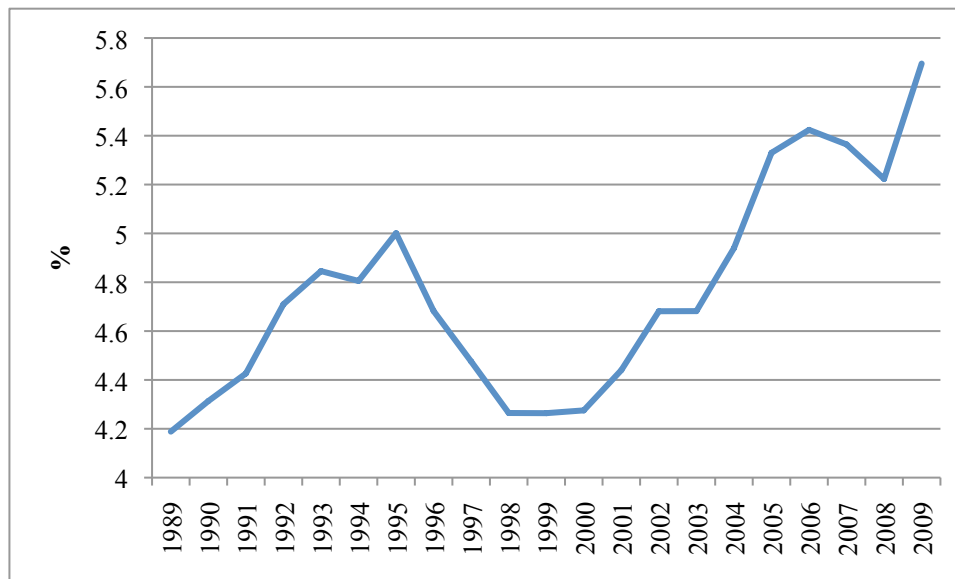


Figure 6: Public Expenditure on Education as a percentage of GDP between 1989 and 2009 (UK Public Spending, 2011)

Though statistically demonstrated that the UK government is indeed spending too much on education while reaping limited returns, further analysis of said statistics show otherwise. Public spending on education has, historically, made up only a small proportion of the country's GDP³ (Figure 6). While a notable upward trend may be observed, public spending on education remains less than 6% of GDP – only increasing roughly 1.5% as a percentage of GDP over two decades.

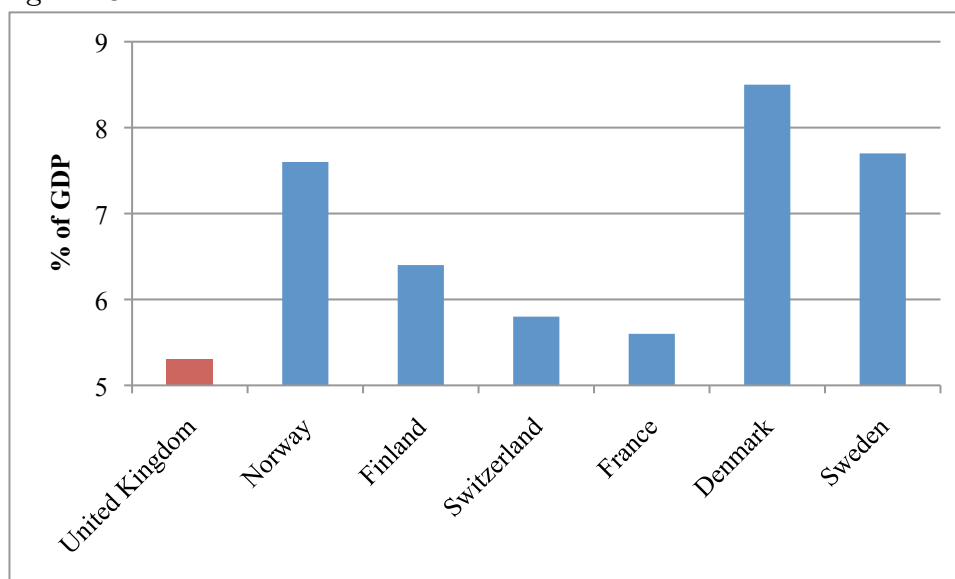


Figure 7: Education Spending (% of GDP) of selected countries in 2008 (NationMaster, 2011)

Further comparison to other European countries (Figure 7) validate that the UK does not spend excessively on education as a percentage of GDP in comparison to demographically similar countries in Europe. Hence, it is acceptable to hypothesize that the UK does not spend too much on education. In comparison to her spending on other sectors (Appendix A), the UK is, reasonably, spending only a moderate amount on education as a whole.

³ Gross Domestic Product refers to the value of good and services produced within the borders of a country within a 12-month period (Sloman and Wride, 2009: 393)

4.2 Increased tuition fees

While it holds true that increased tuition fees could deter potential students from higher education, several skeptics argue that this deterrence may in fact be beneficial to the UK. Middleton (2007) observes that excessive state funding on education breeds complacency within students of a given society. An increase in tuition fees is theorized to motivate prospective students into obtaining scholarships or other financial grants, especially so for students who are otherwise incapable of affording higher education. As such, the overall competitiveness of the education sector and the workforce would be increased when there are higher criterions to advance into higher education. It is thus reasonable to state that the government, in over-spending on higher education, has nurtured a complacent student population and is thereby justified in decreasing expenditure on higher education to correct said issue.

A recent solution proposed to lessen the financial strain involved with higher education is the application of two-year degrees (Prince, 2010). While effective in lowering costs of education, this notion has met with criticism, highlighting the comparative disadvantage British graduates would be subjected to when UK degrees lose international value (Swain, 2010). Again, such methods, while cost saving, are highly detrimental to the reputation of UK education and her graduates. Two-year degrees have often been criticized to have minimal academic value while overloading staff and students alike (BBC, 2010). Most importantly, the overall quality of learning and education is compromised. It is clear that the implications resulted from spending cuts far outweigh the cost-savings provided.

4.3 Growing job competition in the UK

Rising job competition from foreign workers has led to the implementation of measures to protect the employment of British workers (Kelly, 2009). The notion of intensified job competition in the UK, while threatening to the livelihood of British workers, may not entirely be unfavorable to the country (Savage, 2010). The competition brought in by foreign labour provides incentive for workers to work harder or upgrade their skills to avoid losing their jobs to said foreign workers – improving the efficiency and attitude of the workforce. Replacing British workers with foreign workers may also improve local industries – employers now have lower wage liabilities when foreign workers demand lower salaries for the same jobs their British counterparts demand a higher salary for. These cost-savings, converted into profits, could provide the British economy the boost necessary to revitalize the local market. In turn, lower liabilities in businesses may also promote small-business ownership. The benefits are apparent specifically when local businesses are rejuvenated by higher profit margins. Hence, replacing British workers with foreign workers may not entirely be detrimental to the economy - there are possible means of capitalizing on opportunities presented by lower financial liabilities of business ownership. It is however essential for British workers to have the right skills to remain competitive in the job market or the knowledge and expertise in managing business ownership.

4.4 Widening Higher Education Participation

Chowdry *et.al.* (2010), however, found that the lack of finances is not a significant reason in explaining lower Higher Education participation rates. Taking the eligibility of Free School Meals (FSM) as a proxy for low household income, Chowdry *et.al.* (2008) empirically determined that material wealth, whilst statistically significant, only translates to a 3.4% difference in higher education participation. The same study showed that the most significant factor in determining higher education participation was in fact secondary school academic attainment.

As such, empirical evidence suggests that a decline in higher education funding would only result in a small decline in higher education participation. The findings highlight the policy implications to address poor secondary school academic attainment, directed towards disadvantaged youths. These findings also suggest the potential for a revision in the algorithm by which educational institutions select and admit prospective students, to factor the student's percentile ranking within the secondary school as well as the overall score during the A' Levels. This controls for the disparity in teaching quality and standards between secondary schools, focusing on the prospect's academic potential rather than academic attainment – a measurement conventionally skewed by the disparity between state and private schools.

5. Evaluation

5.1 Handling Britain's expenditure on higher education

As mentioned, Britain's expenditure is excessive in comparison to other countries. However, the success of it should also be recognized – the UK is one of the leading countries in labour productivity (Appendix B1) and the role of the education system in this excellence is undeniable. Lowering expenditure on education would be adverse to the workforce, ergo labour productivity. Hence, lowering expenditure on education, while justified empirically, is ill advised given the long-term ramifications involved. With the service sector accounting for over 70% of the country's GDP (ONS, 2000), declining labour standards would certainly have a significant impact on the country's productivity and income. It is therefore prudent for the country to maintain present standards lest risk the possible long-term implications of a declining education system and workforce. Efforts to reduce the UK's budget deficit should be channeled into other avenues without affecting present assets – education and labour.

5.2 Handling Britain's budget deficit

Given the dire state of the UK's budget deficit, it is justifiable for the government to declare expenditure on education excessive and cut spending on education – focusing on present priorities. However, the detriments in doing so, briefly elaborated upon earlier, are inevitable. The coalition government must manage these problems should it opt to reduce spending on education.

Whilst increasing tuition fees, the government should make available higher education for potential students of high capabilities, thus offsetting the increase in fees while attracting students of higher caliber into academic progression. Doing so allows top talents to progress into higher education and motivate prospective students, in general, into pursuing higher education. British youth must also be kept positive about higher education and strive towards academic progression in spite of the accompanying financial burden – maintaining a high quality workforce, one of the UK's fortes, through financial support and publicity, must still remain a priority.

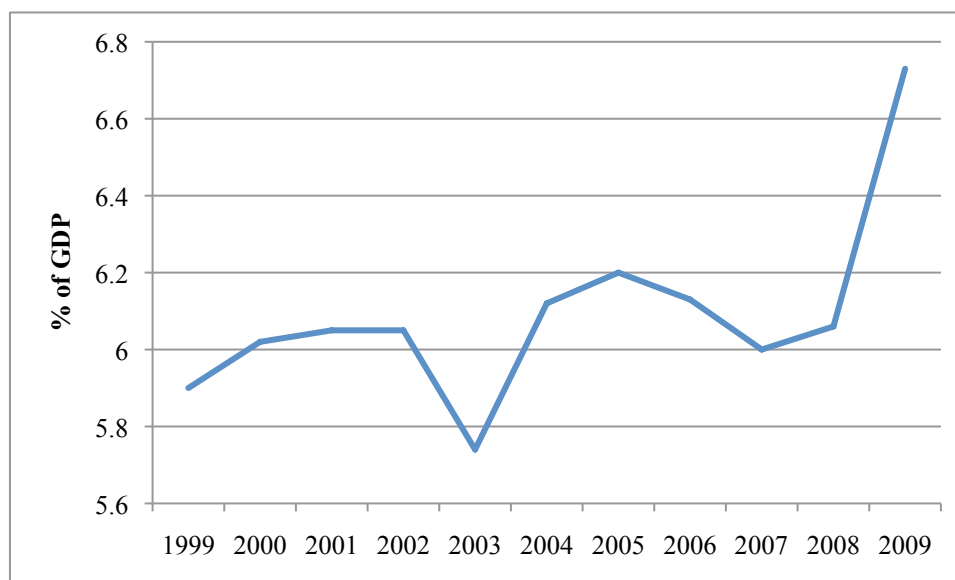


Figure 8: Welfare Spending as a percentage of GDP between 1999 and 2009 (UK Public Spending, 2011)

However, one possible impediment towards this is the relative reluctance of British workers to take up low paying jobs (Immigration Premium, 2010). Given the country's welfare state⁴, there is higher incentive in receiving welfare benefits by remaining unemployed as opposed to taking a low paying job. This has resulted in a rising trend in welfare spending, especially so in recent years between 2007 and 2009 (Figure 8). The UK's

⁴ A social system in which the government is responsible for the welfare of its citizens, including health, education, income and social security (Barr, 2004: 3-4)

expenditure on welfare spending has amounted to almost 7% of GDP, which could otherwise have been converted into substantial cost-savings to alleviate the UK's financial circumstance.

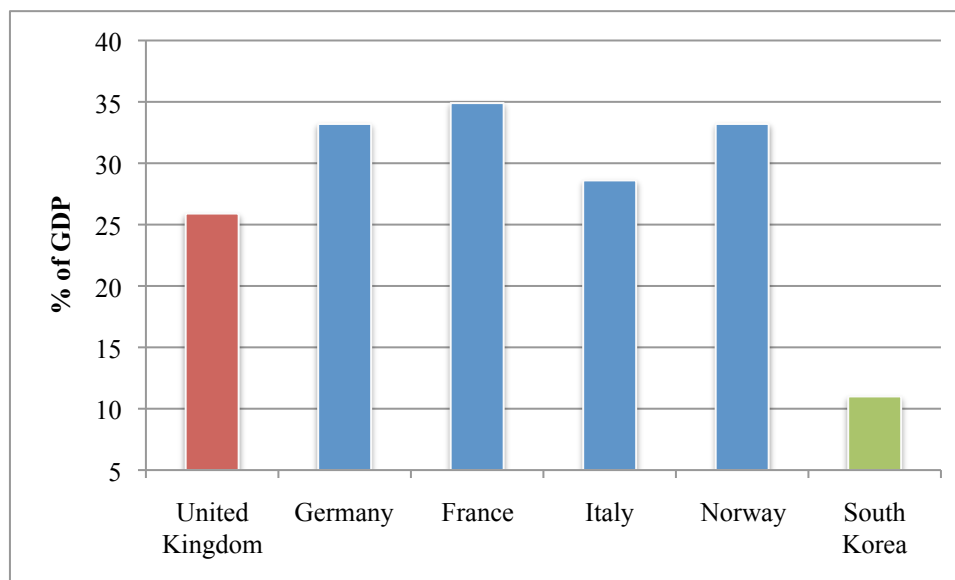


Figure 9: Expenditure on Welfare State as a percentage of GDP (Barr, 2004: 9)

The UK's welfare state is a potential avenue of cost-savings. Though the UK spends less than its European counterparts on the welfare state, the UK is still spending almost 26% of its GDP on the welfare state (Figure 9), with only 4.1% of which on education (Barr, 2004: 9). In spite of the welfare state having proven itself a panacea to poverty in the UK (Appendix B2), South Korea, while spending significantly lesser than the listed European countries, has a poverty rate of 15% - a similar rate to the UK's 14%⁵ (NationMaster, 2011). This indicates a likelihood of maintaining present levels of poverty while downsizing the welfare state to the level South Korea utilizes.

The detriments of a large public sector have been well documented in Europe (Alexiou, 2009). An oversized public sector result in stagnation of growth, poor job creation and diminished incentives. While successful models have been documented in some countries such as Germany and Denmark, most Scandinavian countries have resulted in stagnation as a result of an overly pampering welfare state. The UK should strive to avoid such a predicament, by focusing on downsizing the public sector and transitioning into a free-market model of *laissez-faire*.

⁵ Though many academics have declared comparisons between culturally and demographically contrastive countries inaccurate or invalid (DeVoretz and Vadean, 2008).

6. Conclusion

To conclude, the UK, with her presently high levels of budget deficit, is justifiably spending too much on higher education. At present, the economic priority of the country should be to reduce its sizable public debt. However, the ill effects of decreasing expenditure on education are significant and should be accounted for with the support of the coalition government by promoting higher education - to prevent the increased financial liabilities of higher education from deterring British students pursuing academic progression.

Empirical research suggests that finances, the lack thereof, is not the most significant factor in determining higher education participation. Rather, it is prior academic attainment that is most important – policy intervention should be directed towards this concern.

The UK would gain from downsizing her public sector, to move away from the conventional European model of welfare state and into a more competitive model of *laissez-faire*. This goal is in line with the notion that the UK is indeed spending too much on higher education.

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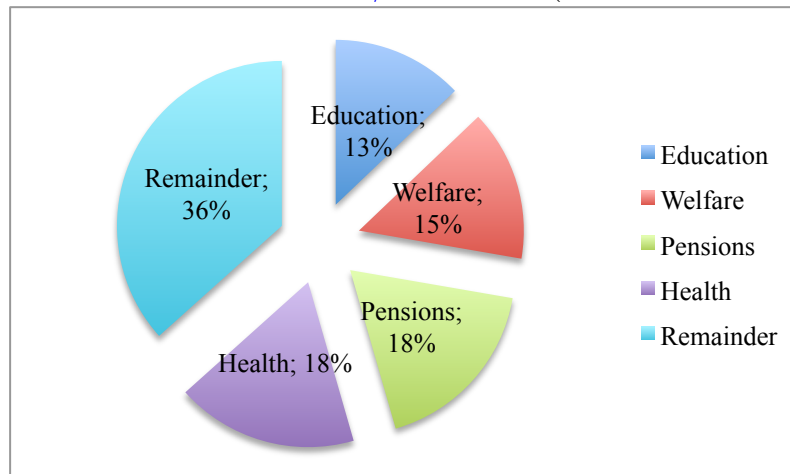
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8. Appendix

Appendix A: Pie chart depicting percentage of UK public spending in 2009

UK Public Spending (2011): Total Public Spending
<http://www.ukpublicspending.co.uk/#ukgs302a> (Accessed 12 January 2011)



Appendix B1: Top 10 countries in the world by GDP per person employed in 2008

World Databank (2011): World Development Indicators Databank
<http://data.worldbank.org/data-catalog> (Accessed 14 January 2011)

| Rank | Country | GDP per person employed |
|------|---------------------|-------------------------|
| 1 | United States | 65,480 |
| 2 | Ireland | 56,701 |
| 3 | Belgium | 55,448 |
| 4 | France | 55,052 |
| 5 | Luxembourg | 54,511 |
| 6 | Trinidad and Tobago | 53,012 |
| 7 | Norway | 51,736 |
| 8 | United Kingdom | 51,697 |
| 9 | Finland | 50,560 |
| 10 | Australia | 49,615 |

Appendix B2: Poverty Rate of Selected Countries between 1970 and 1997

Bradley, D., Huber, E., Moiler, S. Nielson, F. and Stephens, J.D. (2003): Determinants of relative poverty in advanced capitalist democracies. *American Sociological Review*, 68(3), pp. 22-51

