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A Comparative Study of Higher Education Funding and Tuition Issues in the United Kingdom

and United States Systems

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Abstract

The United Kingdom (UK) higher education system and United States (US) higher education system have many differences, but share a common concern of funding. Both systems are facing issues regarding tuition and its appropriate role in funding higher education. This study aims to understand the funding and tuition issues of the UK and US higher education systems through a comparative analysis. Through this understanding, I will propose opportunities for each system to learn from the challenges and successes of the other.

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While the historical issues of funding and tuition and the strategies addressing those issues for the higher education systems of the United Kingdom (UK) and the United States (US) are very different (Johnstone, 1986), the current debates regarding these issues in both systems are more similar (Johnstone, Arora & Experton, 1998). In this paper, I will provide a basic exposition of both the UK and US higher education systems, focusing on funding and tuition issues historically and currently. Through this description, I will analyze opportunities for each system to learn from the other. Finally, I will point to areas for possible future research.

Throughout the last decade, the world witnessed a global trend in higher education—the shifting of cost burden from the public to the individual (Altbach, 1997; Johnstone et al., 1998). This is no minor issue, as Altbach (1997) classifies the end of free higher education tuition in the UK a “revolution” (p. 16). The shift of higher education financing “from the state to the student” has been happening in the US for a longer period of time, as it began in the 1970s (Altbach, 2002, p. 5). Even though the US has a more extended history with the shift from state funding to student funding, the issue is still relevant and controversial today. “The postsecondary funding gap has been growing in most states for some time, and is reaching crisis proportions with the economic collapse of 2008-2009” (National Center for Public Policy and Higher Education, 2009, p.1). With the funding of higher education in the UK at revolution status and in the US at crisis status, serious consideration of this issue is necessary.

While the overall funding issue for the UK and US higher education systems is the major issue, the matter of tuition is of crucial importance within the larger funding issue. As Johnstone (2004b) points out, there is “a heightened appreciation of the importance of other-than-

governmental revenue” for the funding of higher education, namely tuition (p. 403). In 1986, Johnstone first expressed the idea of cost-sharing for the international comparative perspective (Johnstone, 2004b, p. 403). Johnstone (2004b) defines cost-sharing as

a shift of the higher educational cost burden from exclusive or near exclusive reliance on government, or taxpayers, to some financial reliance upon parents and/or students, either in the form of tuition fees or of ‘user charges’ to cover the costs of formerly governmentally- or institutionally-provided room and board. (pp. 403-404)

The UK and US higher education systems are both experiencing, or have recently experienced, major shifts in cost-sharing policies (Johnstone, 2004b). In the UK higher education system, the cost-sharing policy shift came in the form of “the beginning of tuition (where higher education was formerly free)” in 1998 (Johnstone, 2004b, p. 405). In the US higher education system, the cost-sharing policy shift came in the form of “the very sharp rise in tuition (where public sector tuition already exists)” (Johnstone, 2004b, p. 405). This American shift towards greater cost burden on students and families is precipitated by the need for higher education institutions to fill in the funding gaps created by decreased state funding (Johnstone, 2004b). While the UK and US higher education systems have faced and are facing different forms of cost-sharing policy shifts, I will look for lessons each system can learn from the other system’s challenges and successes.

Methods

While an entire paper could be devoted to understanding the funding and tuition issues of either the UK higher education system or the US higher education system, a comparative

approach can be most useful. With each system is facing great challenges, it is possible that both systems can learn from each others' struggles and successes.

Comparative research is a valuable area of research in higher education. It is a 'gold mine' in terms of broadening our knowledge on the diversity of possible solutions and in challenging and relativizing our past perceptions of the underlying rationales, the fabric and the functioning of higher education. (Teichler, 1996, p.369)

Even though comparative research holds great promise, it also faces many challenges, including researchers being beleaguered by the huge mass of information, faced with lack of appropriate data, and overwhelmed by prior assumptions which do not allow for new insights (Teichler, 1996). In this paper, I will try to maximize the potential of comparative research and minimize the challenges.

In order to decipher what, if any, lessons the UK and US higher education systems can learn from each other, it is important to begin with an understanding of each system. In the next section of this paper, I will provide a basic description of the UK and US higher education systems, with an emphasis on funding and tuition issues. In any comparative analysis, it is essential to examine whether the two units of analysis are comparable. One of the first decisions I needed to make when writing this paper was to decide my units of analysis. Even though the UK and US higher educations systems are distinct and very different (Orkodashvili, 2007), it is important to compare them as they are both facing problems of how to fund higher education, particularly what role tuition should play in that funding.

Findings

In this section of the paper, I will describe the UK and US higher education systems, focusing on information relevant to the understanding of funding and tuition issues.

United Kingdom Higher Education System

The UK higher education system was mostly private in the nineteenth century (*Higher Education Finance United Kingdom*, n.d.). “British universities were converted into state dependencies in the 20th century and are now generally considered public” (*Higher Education Finance United Kingdom*, n.d., p. 1). All higher education institutions in the UK are independent and legally make their own choices regarding issues like admission standards (*Higher Education Finance United Kingdom*, n.d.). Additionally, each institution has its own charter and degree-granting authority (Johnstone, 1986).

The UK higher education system is now decentralized for the countries that constitute the United Kingdom (*Higher Education Finance United Kingdom*, n.d.). Each country decides its own higher education policy and has its own funding council that distributed monies to that country’s higher education institutions (*Higher Education Finance United Kingdom*, n.d.). The four relevant funding councils are the Higher Education Funding Council for England, the Scottish Funding Council, the Higher Education Funding Council for Wales and the Department for Funding and Learning in Northern Ireland (*Higher Education Finance United Kingdom*, n.d.). As the higher education institutions are financially dependent on their respective funding councils, they work out a funding agreement that provides for a certain number of students (*Higher Education Finance United Kingdom*, n.d.)

There have been major changes in the UK higher education system in the last three decades and to an even greater extent in the last two decades (*Higher Education Finance United Kingdom*, n.d.). In the last thirty years, there has been great expansion in the number of students educated in the UK higher education system (*Higher Education Finance United Kingdom*, n.d.). “Full-time undergraduate student numbers increased by almost 70 percent between 1989 and 1995 and by 21 percent between 1994/95 and 2003/04” (*Higher Education Finance United Kingdom*, n.d, p. 1). The tremendous expansion in enrollment was not matched by an increase in government funding to the UK higher education system. From 1989 to 1997, “public per student funding fell by 36 percent” (*Higher Education Finance United Kingdom*, n.d. p. 1).

During this time of enrollment growth and funding per student reduction, major reforms to the UK higher education system were developing. In 1996, the National Committee of Inquiry into Higher Education was formed through the cooperation of the UK’s major political parties “to make recommendations on how the purposes, shape, size and funding of higher education, including support for students, should develop to meet the needs of the United Kingdom over the next 20 years” (*Higher Education Finance United Kingdom*, n.d. p. 2). In 1997, the Committee produced what came to be known as the Dearing Report which included a recommendation that students enrolled in higher education become at least partially responsible for their tuition (*Higher Education Finance United Kingdom*, n.d.). Later in the year, the government decided to go forward with student contributions to the cost of their higher education, based on their means, and income-based loans (*Higher Education Finance United Kingdom*, n.d.). Starting in the 1998-1999 school year, full-time UK and European Union (EU) students were required to contribute £1,000 towards their education, while the amount of that

£1,000 that came from the students depended on family income and the lowest income students were not made to contribute (*Higher Education Finance United Kingdom*, n.d.).

Following great political and public debate, the Higher Education Act was passed in 2004 and allowed UK higher education institutions that had demonstrated sufficient planning to ensure financial accessibility for students to charge annual tuition ranging from £0 to £3,000 beginning in 2006 (*Higher Education Finance United Kingdom*, n.d.). Additionally, the Higher Education Act of 2004 ended the requirement that tuition costs must be paid up-front (*Higher Education Finance United Kingdom*, n.d.). Instead, students now have the option to pay their tuition after they graduate and are earning more than £15,000 a year, with the amount they pay back per year set at 9 percent of their income (*Higher Education Finance United Kingdom*, n.d.). The money is borrowed from the Student Loans Company, which directly pays the higher education institution where the student enrolls (*Higher Education Finance United Kingdom*, n.d.). The repayment is deducted directly from paychecks through the government tax system (*Higher Education Finance United Kingdom*, n.d.). Living costs, known as maintenance fees, can also be borrowed, on a semi means-tested basis, and paid back after degree completion and income mark earned (*Higher Education Finance United Kingdom*, n.d.). Interest rates on the money borrowed are set at the rate of inflation (*Higher Education Finance United Kingdom*, n.d.). “Loan balances for both tuition fee and maintenance loans are written off after 25 years from commencement of repayment” (*Higher Education Finance United Kingdom*, n.d., p. 4).

Finally, it is important to note that there is slight variation within the UK higher education system, as the funding councils of England, Northern Ireland, Scotland and Wales have independence and are able to make country-specific policies (*Higher Education Finance United Kingdom*, n.d.).

United States Higher Education System

The US higher education system is highly decentralized (Ehrenberg, in press). The federal government's involvement in higher education is limited to a few areas, namely financial assistance to students and research funding (*Higher Education Finance United States*, n.d.). There is no centralized ministry of education or centralized funding council (American Council on Education, 2001). The "50 states have primary responsibility for supervising higher education within their borders" (American Council on Education, 2001, p. 1). In the US higher education system, "funding sources vary according to institutional type (American Council on Education, 2001, p. 3). The US higher education system consists of approximately 4300 institutions, of which about 1700 are public and 2600 are private (*Higher Education Finance United States*, n.d.). Private higher education institutions "rely heavily on tuition fees" but still have access to state and federal funds for financial aid and research (American Council on Education, 2001, p. 3). Public higher education institutions have traditionally seen their greatest source of funding come from state and local tax funds, but there has been a trend of state and local funding being reduced in recent years (American Council on Education, 2001).

Tuition fees vary significantly throughout the US higher education system (American Council on Education, 2001). Individual higher education institutions are free to determine their tuition fees (*Higher Education Finance United States*, n.d.). Annual tuition fees can range from approximately \$4,000 to \$35,000 at U.S. public and private higher education institutions (*Higher Education Finance United States*, n.d.). According to Ehrenberg (in press), "tuition has risen at roughly the same rate (in recent years roughly 3% more than the rate of increase in the CPI) at public and private higher education institutions in the United States" (p. 11). Another cost of higher education is living expenses (*Higher Education Finance United States*, n.d.). Tuition fees

and living expenses, together, are primarily seen as a family or parental responsibility for the traditional student, “but only to the limit of what the parents are deemed able to pay by a calculated Expected Family Contribution (EFC)” (*Higher Education Finance United States*, n.d., p. 1). The US Congress sets the EFC which is used to determine what need-based, or means-tested, financial aid and subsidized/guaranteed loans for which the student is eligible (*Higher Education Finance United States*, n.d.).

The US higher education financial assistance system can be more appropriately described as a non-system (*Higher Education Finance United States*, n.d.).

This system, or non-system, consists of independent sources of grant, loan, and work study assistance from the federal government, the fifty state governments, most colleges and universities (through their endowments and associated foundations), hundreds of corporate and local philanthropic funds that have financial aid as one of their programs areas, and a wide range of guaranteed and partially subsidized student loans. (*Higher Education Finance United States*, n.d., p. 2)

Most students must begin to repay their loans within six months of graduation, regardless of job status or income (*Higher Education Finance United States*, n.d.).

Discussion

The UK and US higher education systems have been shown to be very different in many aspects of funding and tuition, but they also share some commonalities. Students and/or their families are being required to carry more of the burden of higher education in both the UK and US. This is part of a more widespread, global trend - including Australia, New Zealand, the Netherlands, Kenya, Zambia, and Chile - that shifts costs of higher education from governmental

sources to non-governmental sources, namely the student and/or family (Johnstone et al, 1998). Both the UK and US higher education systems attempt to offset this increased burden on the student/family with financial assistance (Johnstone et al, 1998). But this is where the two higher education systems begin to diverge. First, the UK higher education system has a very clearly defined and centralized system for loans, while the US loan system is a maze (*Higher Education Finance United Kingdom*, n.d.; *Higher Education Finance United States*, n.d.). Additionally, the US higher education system is rife with merit-based, non-need based scholarships, while the UK higher education system focuses on need-based grants (*Higher Education Finance United State*, n.d.; *Higher Education Finance United Kingdom*, n.d.). This divergence on how to fund students reveals important characteristics of the US and UK higher education systems. The literature on the goals of the UK higher education system repeatedly mentions access as the major priority (*Higher Education Finance United Kingdom*, n.d.; Palfreyman, 2004). Need-based grants help increase access in higher education (King, 1999). The literature on the priorities of the US higher education system also mention access, but list an additional major focus of choice (King, 1999). Choice is an issue in the US higher education system because of the range of higher education institutions available (King, 1999). Merit-based scholarships tend to increase the choices a student has when selecting a higher education institution (King, 1999).

While the UK and US higher education systems are both seeing higher education costs increasingly shift from the state to the individual, they are passing those costs off in different ways. The US higher education system has seen dramatic increases in student borrowing (King, 1999). In the US higher education system, parents are a major part of the borrowing process, and are included in the federal financial aid process (*Higher Education Finance United States*, n.d.). In the UK higher education system, parental involvement seems much less substantial.

Parents are somewhat removed from the process by the loan structure set by the government. Higher education loans in the UK are paid back through a direct withdrawal from the graduate's paycheck (*Higher Education Finance United Kingdom*, n.d.). Parents can still assist their children financially by helping pay tuition fees so that loans do not need to be taken, but this does not seem to be the norm (Johnstone, 2004a).

The issue of merit-based, non-need based scholarships is a complicated, but relevant, topic for the issue of higher education financing and tuition. These types of scholarships/tuition discounting do not seem to be present in the UK higher education system, but are a major feature of the US higher education system. There has been a major shift in scholarships awarded to students in the US higher education shift in the last decade (Heller, 2006). From the Higher Education Act of 1965 to about the mid-1990s, scholarships were primarily awarded on the base of financial need (Heller, 2006). In the mid-1990s, the shift toward merit-based scholarships began, with funding coming both from the higher education institution and the state (Heller, 2006). Both state and institution funded merit grants/scholarships tend to be awarded to higher income students (Heller, 2006). This brings up questions of accessibility and choice. State funded, merit-based scholarship programs have done little to close the access and participation gaps between low and high income students or between racial majority and racial minority students (Heller, 2006). While more research is needed, it also appears that institution funded merit-based scholarships may lead to less access and participation of lower income students (Heller, 2006). Accordingly, if US higher education institutions truly want to prioritize increased access, more financial resources must be focused on need-based scholarships, rather than merit-based scholarships.

Tuition discounting – “when colleges use their own institutional resources to offer grants and scholarships to students” - is also used in segments of the US higher education system to enroll a class size that will keep the institution financially solvent (Ruterbusch, 2004, p. 2). Ruterbusch (2004) found that tuition discounting actually has a negative relation to institutional financial health at undergraduate-focused higher education institutions. Martin (2002) agrees that tuition discounting can be harmful to the fiscal health of US higher education institutions. This is another reason US higher education institutions should reconsider their use of tuition discounting.

While the UK higher education system, with its capped and relatively low tuition fees, can be viewed in a very idealistic manner, there is at least one important downside. In an era where global competition is a present and pressing issue, the UK higher education system finds itself lagging behind other higher education systems, including the US, as its funding level is capped and lower (Palfreyman, 2004). US higher education institutions are not held to any tuition fee limit (Palfreyman, 2004). “In 2000, the UK spent the equivalent of \$9,657 per student in tertiary education. This is below the OECD mean average and under half of what the US spent (\$20,358)” (*Higher Education Funding*, n.d., p. 2). The UK higher education system may continue to struggle in its attempts to keep up with US higher education if this funding gap persists (Palfreyman, 2004).

Again, while the UK higher education funding system may seem very appealing to Americans, the citizens of the UK and particular British political parties remain opposed to tuition fees (*Higher Education Finance United Kingdom*, n.d.). This opposition has deep historical roots (Marcucci and Johnstone, 2007). Traditionally,

the argument for free higher education is based on several rationales. The returns to society from an educated population are very high. Education is (or should be) a fundamental right. Tuition fees may discourage the participation of students from low-income families, rural areas or ethnic minorities with negative impacts in terms of social equality and social benefits. The costs of student maintenance are high and already beyond the reach of many families especially when coupled with the costs of foregone student earnings (Marcucci and Johnstone, 2007, p. 26)

Accordingly, the shift in the UK higher education system from no tuition fees to tuition fees and loans is controversial to many people in the UK (Johnstone, 2004a). The US higher education system has a longer history in the era of decreased state funding and greater student/family cost-sharing. In the 1970s, conservatives argued that the benefits of higher education were a private good (Altbach, 2002). Today's American families seem more accepting of the cost they must share for higher education (Johnstone, 2004a).

Conclusion

Funding for higher education is a challenge facing both the UK and US higher education systems. One component of this funding issue, tuition, has caused consternation in both systems. The two systems are both shifting an increasing share in the funding of higher education from the government to the student/family. The UK and US higher education systems are passing along this cost in different ways, none of which is particularly satisfying to the students/families. The funding and tuition issues are likely to continue to be an areas requiring attention from scholars in the field of higher education for years to come.

The comparative analysis provided through this study points to a number of ways the UK and US higher education systems can learn from each other on matters of funding and tuition. This comparative analysis offers even more questions and issues for future research. First, higher education scholars could analyze the feasibility of introducing a loan system utilizing the UK model, wherein students pay back what they borrowed to finance their higher education only when they reach a certain level of income and only at a certain rate of their salary. This development could assist students by allowing them time to find an income and by keeping their payments at a manageable level. This change in loan system would be massive and complicated, but the reform may be necessary. A second arena for possible research prompted by issues raised in this comparative analysis is how the US higher education system might reform merit-based scholarships, funded by the state and by higher education institutions, and tuition discounting. Merit-based scholarship programs and tuition discounting have been shown to be problematic for a number of reasons, yet they are a major feature of higher education financing in the US system. Could the UK higher education system serve as a model of need-based funding? Might US higher education institutions be able to reach the intended goals of merit-based scholarship program and tuition discounting through need-based scholarships and grants? A third area for possible future research is analyzing what level of tuition the UK higher education system could increase to while still providing the access they so highly prioritize. With the UK funding per student expenditure at half the level of the US funding per student, and quality being another issue of great importance to the British, the UK higher education system would serve itself well by conducting studies.

I find it highly fitting to conclude this comparative analysis with the words of one of the major scholars in the field of international higher education and finance: “higher educational policy makers on both sides of the Atlantic would probably understand their own systems better if they were more cognizant of the essential-but-explicable differences in our respective higher educational policies and issues” (Johnstone, 2004a, p. 16).

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