Abstract
Universities UK (UUK) has suggested that there may be very significant losses to higher education as a consequence of Covid-19. However, losses are likely to be substantially lower than the potential losses estimated by UUK. But the magnitude of losses is very uncertain. The UUK’s proposal to restrict undergraduate enrolment per university to stop institutions poaching students is not in the interests of the most highly regarded universities, or that of students. Some rationalisation of the sector should be the price of further government support. Now is also the time to reconsider how university research is funded.

Keywords: Covid-19, universities, students, UUK, education

Universities UK (UUK) asked the government for £2.2 billion to help the sector deal with the impact of the Covid-19 pandemic. UUK estimated that the education sector annually generates more than £95 billion for the UK economy, employs the equivalent of 940,000 people, and earns £13.1 billion in export earnings. UUK further estimates that it will lose £790 million in revenues in 2019–20 and potentially £6.9 billion in 2020–21 if foreign students, who are critical to the financial health of the sector, fail to enrol. UUK claims that without the support requested, some institutions will fail and others will be forced to reduce provision. The institutions most likely to fail are those with higher levels of external funding, lower levels of cash reserves, and a higher proportion of BAME students. That is, those institutions that were in a more fragile financial state before the pandemic. Competition for students will ‘be destabilising, creating pressure to switch from their chosen institution’. Without help from the government ‘access to higher education would be decreased, disadvantaged students would be worse off and less able to select a university that best suits their learning needs’.

UUK also argues that research and STEM programmes will be particularly hard hit because they are cross-subsidised by the higher fees paid by foreign students and the global position of UK higher education will suffer as a consequence. In exchange for additional government support, the universities have promised to cut costs, accept restructuring, and rein in predatory admissions policies. Although higher education (HE) provides social and cultural benefits to students and society, UUK has emphasised its economic benefit and so here we focus on economic arguments.

The Labour Party is sympathetic to UUK and has called on the government to guarantee that no university be allowed to go bankrupt, because this would cost jobs, reduce social mobility, and limit the training of key health sector staff. Although the Department for Education supports the request from UUK, the Treasury does not. The Treasury has agreed only to short-term stabilisation by advancing the sector up to £2.6 billion in tuition fees and £100 million in research money. This is not new money: it is an advance. There will be no guaranteed bailout of institutions and further emergency help will be on a case by case basis, and only as a last resort. The Treasury will continue to monitor the financial situation of HE, but at this stage only short-term assistance has been offered, with no safety net. HE is just one sector among many requesting additional assistance.

UUK’s statement raises many questions about British universities and the impact of Covid-19. Is HE important enough that it deserves special attention? Is the financial loss to HE likely to be as great as UUK
implies? Which institutions are most severely affected? Will they fail? Should they be saved? Will students be unable to select a university that best suits their learning needs? Is the Treasury’s measured support appropriate?

How important is HE?
Is HE important to individuals and society? The Institute for Fiscal Studies (IFS) has shown that 80 per cent of students gain financially from attending university (85 per cent of women and 75 per cent of men). That is, their earnings are higher, on average, than if they had not gone to university. But one in five students would have been better off not attending university. For some subjects and universities, the figures are worse. For example, on average—and controlling for academic preparation and family background—for women the net discounted lifetime returns from studying creative arts is zero and for men it is negative. On average, attending university pays off financially for most students in many subjects and most institutions, but there is considerable variation around that average. The IFS also estimated the economic benefit to the nation. Although HE is expensive to the taxpayer, the average financial gain to the nation is £110,000 per male graduate and £30,000 per female graduate.

Thus, there is solid evidence that HE is a good investment for most students and the government, but there is also solid evidence of courses and institutions for which there is little or no economic return. And this was before Covid-19. Although programmes with no economic return may be restored, Covid-19 should not be an excuse for retaining these zombie courses and institutions. Restructuring of HE has been offered by UUK and the Treasury has indicated that it expects restructuring to take place. It is time to act on recommendations in the Augar Report on how one can justify the continued support of programmes or institutions where the graduate ends up financially worse off. Disadvantaged and BAME students are not made better off by enrolling in courses that have no economic return—nor is social mobility furthered by such action. I have argued in this journal that higher education is not exactly like other businesses, but this does not necessarily mean that it is exempt from all policies that are applied to other businesses.

Will the financial loss be as great as UUK claims?
While universities will suffer a financial loss from Covid-19 in 2019–20 from a reduction in accommodation, catering, and conference income, it is unclear how large a loss they might suffer in 2020–21. Although UUK states that the universities could lose £6.2 billion in revenues if all foreign students stay away, that is highly unlikely. A study by London Economics for the University and College Union estimates a 16 per cent decline in domestic students costing £612 million, and a 47 per cent decline in EU students causing a loss of £350 million in 2020–21.

Not all institutions were estimated to be affected equally by Covid-19. Another estimate, from Times Higher Education, estimated a loss of around £3 billion if enrolment drops by 40 per cent, about £1.7 billion for a 20 per cent drop, and around £1 billion for a 10 per cent drop. So, estimates to date suggest a potential fall in tuition fee income of between £2 billion and £3 billion. Some universities are primarily teaching institutions, heavily reliant on student fees, and some are diversified research and teaching institutions. Some are highly selective and have an international reputation, some are not. The London Economics study emphasised the potential loss of teaching income not total income. If universities are to be compensated for the impact of Covid-19, should they be compensated on the basis of the percentage of student fee income lost or the percentage of total income lost? The ordering of recipients for support would be very different depending upon the criterion used.

The estimates of reduced student enrolment in the London Economics study are driven by lower enrolment of foreign students, but also part-time students and graduate students. London Economics did not find any association between graduate enrolment and declines in economic activity, but
decided—given the likely depth of the recession—to assume there would be an impact on graduate enrolment. The estimated decline in foreign student enrolment is based on a finding that a 1 per cent decline in global GDP was associated with a 0.485 per cent decline in enrolment of international students in UK HE. This assumption is particularly important for more highly ranked universities which attract many international graduate students. It is critical to understand how sensitive the London Economics estimate is to the underlying assumptions. Unfortunately, we do not have this information.

There are also other factors that could offset the predicted decline in enrolment and funding. Demographic change will help HE because the number of eighteen year-olds is forecast to increase from 600,000 in 2020 to 760,000 in 2030. For example, postgraduate work rights are a major attraction for international students and an extension of such rights, as advocated by former Minister for Universities Chris Skidmore, could help attract more students to the UK. Another factor that is likely to affect international enrolment is how well each receiving country is seen to handle the pandemic (the ‘fear factor’). At present, the US and UK are lagging behind Canada, Australia, and New Zealand. Thus, there is enormous uncertainty about the financial impact of Covid-19. It is likely to be far less than that implied by UUK and there are reasons to believe that the London Economics estimate is too high. Given this significant uncertainty, it is no surprise that the Treasury was not forthcoming with additional support at this time. Future support is likely to be contingent on the sector’s actual financial position and what structural reforms it agrees to make.

International student numbers have received by far the greatest attention, but it is also important to consider the enrolment of UK-domiciled students. Will it fall? Nick Hillman, head of the Higher Education Policy Institute, and David Willetts, former Minister for Universities, both argue that domestic enrolment will not fall. As Hillman noted ‘recessions tend to mean people want more education because the alternatives—underemployment or unemployment—are worse and having more skills can protect you against economic chill winds’. This view is supported by research in the US and the UK. In the US an enrolment surge occurred during and immediately after the Great Recession, and a recent analysis published by the Brookings Institution found that a one percentage point increase in the US unemployment rate is associated with a 1.6 percentage point increase in university enrolment. Damon Clark estimated ‘youth unemployment effects that are positive, statistically significant, and large in magnitude—at least twice as large as previous estimates’. Clark’s study is important because it encompasses earlier recessions—those of 1980 to 1983 and that of the early 1990s—when employment fell by more than in the Great Recession, and it focuses on the effects of local labour markets for youth. When job prospects are poor in the local labour market, students enter or stay on in higher education. Thus, London Economics’ assumption of a small increase in enrolment of UK-domiciled students is probably too pessimistic and the agreed caps on enrolment will not help young people when the labour market for them is likely to be very poor.

While Covid-19 has clearly shown the financial dependence of many UK universities on international—especially Chinese—students, the British Council had already forecast declines in Chinese students studying in the UK because of increasing quality of Chinese institutions, slower growth in household incomes, and a declining number of university-age people. Care must be taken not to compensate for revenue losses that were to occur anyway. This could be an opportunity to adjust to possible future declines in Chinese students.

Who should be protected?
If the government decides to offer further support to HE but it is insufficient to cover all institutions, who should be first in line? Is it wise to protect lower ranked institutions at a cost to higher ranked institutions? The London Economics study uses the categories established by a study by Vicki Boliver, who asked whether it was possible to identify distinctive clusters of higher and lower status UK universities. She found that Oxford
and Cambridge stand out among the ‘old universities’ and form an ‘elite tier’ based upon research activity, economic resources, academic selectivity, and social mix, but score much more modestly on teaching quality. The Russell Group universities cluster with the majority of the old universities to form a middle status tier. A quarter of the new post-1992 universities form a distinct bottom tier and the rest a third tier. Expansion of higher education, restructuring, marketisation, internationalisation, and different educational policies across countries within the UK, have not altered the hierarchy of universities, because this hierarchy is deeply embedded in social structures and wider processes of social selection and social reproduction. And the same hierarchy is deeply embedded in the minds of foreign students. One could argue that any support offered to the HE sector because of Covid-19 should be concentrated on the higher status institutions, for that is where the international students are concentrated, where they cross-subsidise research, and it is these institutions upon which the UK’s reputation for excellence is based. However, these institutions would generally suffer lower percentage falls in total income (although not necessarily in discretionary income). Institutions that primarily serve UK-domiciled students should have relatively small losses and, if enrolment increases, may actually be in a stronger financial position than they expected to be.

However, UUK wants to protect all institutions, at least in the short term. The Treasury is unlikely to agree. Saving institutions that were failing before Covid-19 is not in the national interest, nor in the interest of students. What would be in the interest of students is courses and institutions that suit their needs, where those needs often consist of getting a good job at the end of the course. Those courses and institutions do not all need to be pale imitations of the old universities. Some universities are moving towards serving regional markets and providing applied courses. This should be encouraged, as should asking the question: ‘do all university courses need to be three years long?’ And, ‘are there students who would benefit from further education instead of university?’ This may be seen as elitist or going back to the pre-1992 HE system, but it may be in the best interest of students and the nation.

Will enrolment caps help students?

Without enrolment caps, stronger institutions will attempt to replace foreign students by recruiting more domestic students. To do so, universities would enrol students who would have gone to a lower ranked institution in the absence of Covid-19. Such ‘poaching’ reduces the financial impact on more highly ranked universities, but it increases the losses of lower ranked institutions unless total enrolment increases. One can see that from an institutional perspective, capping enrolment is a cost to more highly ranked institutions, but a potential benefit to lower ranked institutions. But from a student’s perspective, it takes away the possibility of attending a more highly ranked institution and, for some, the possibility of attending HE at all. Given that lifetime earnings are positively related to the quality of university attended, capping enrolment by institution provides support to lower ranked institutions at the expense of more highly ranked institutions and students. The most disadvantaged students may benefit most from a drop in international students and may actually be able to attend a university that better suits their needs than was likely pre-Covid-19. If universities can admit more UK-domiciled students, about 1,000 high-attaining disadvantaged students could be placed at better universities than if the currently agreed enrolment caps are put in place. If universities are able to replace overseas students with UK-domiciled students, disadvantaged students may benefit by being admitted to more selective universities. Imposing enrolment caps, as proposed by UUK and agreed to by the Treasury, will reduce upward moves, particularly for the most disadvantaged students.

The HE sector in the UK is clearly of significant economic importance. On average, there are significant private and public returns from HE. UUK has predicted the likelihood of very significant losses to the sector in income from international students...
as a consequence of Covid-19. However, losses will probably be substantially lower than the potential losses suggested by UUK. But the magnitude of losses is very uncertain. The losses from a fall in international students are concentrated on the most highly ranked universities, but because many of them are diversified, the percentage impact on total income is much less than the percentage impact on student fee revenues. For this reason, there may be pressure on wealthier institutions, as there has been in the US, not to accept government money. The UUK’s proposal is to restrict undergraduate enrolment per university to stop institutions poaching students from universities less selective than themselves. This proposal is not in the interest of the most highly regarded universities or that of students. Some rationalisation of the sector should be the price of any further government support and some suggestions for such rationalisation are contained in the Augar Report. Covid-19 has shown the value of university research to the health of the nation, but it has also shown the fragility of that research because it is cross-subsidised by tuition fees from international students. Now is the time to reconsider how university research is funded. The HE sector is of clear importance to the nation, but so too are many other sectors. The losses from a fall in international students are contained in the Augar Report. And some suggestions for such rationalisation are contained in the Augar Report. Covid-19 has shown the value of university research to the health of the nation, but it has also shown the fragility of that research because it is cross-subsidised by tuition fees from international students. Now is the time to reconsider how university research is funded. The HE sector is of clear importance to the nation, but so too are many other sectors. Treasury support is likely to be selective and limited, so HE needs to outline why the sector is more deserving of additional government support than other sectors. And HE needs to be clear about how it will use any funds from the government and what it will give in return.

Notes
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