

Public Inquiry Response: “The economics of higher education, further education and vocational training”

To: House of Lords Select Committee on Economic Affairs

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:

The Intergenerational Foundation (IF) welcomes the opportunity to comment on government policy towards higher education, further education and vocational training. It is argued that a high university participation rate is desirable on the grounds that it benefits the individual — through a “graduate premium” — and the national economy, as the skills that young people learn during their degrees enhance productivity and enable the provision of vital services.

But both ostensible benefits ought to be challenged. As the number of graduates in non-graduate jobs rises, our productivity relative to other developed nations falls and the burden of student loans reaches new heights, it is clear that a mismatch exists between graduate skills and the demands of the labour market. Not only should the Government provide nationally standardised and regulated apprenticeships in a wide range of vocations, it should also change its rhetoric and goals; the flaws of the current system highlight the need for a more balanced approach to post-secondary education and the abandonment of our obsession with promoting university participation.

1. The grounds for raising tuition fees and university participation are unconvincing

The graduate premium, (which the government had previously cited as around £400,000, but now estimates to be closer to £100,000) has been used to justify the rise in tuition fees, the elimination of maintenance grant support, and the claim that it is in the interest of young people to attend university. We ought to acknowledge the weakness of the premium as a rhetorical device. Firstly, the average student who is supposed to receive the premium [does not exist](#). The pay-off from attending university is strongly influenced by: degree course, socioeconomic status, gender, quality of degree received and university attended. Further still, the assumption is

made that graduates earn more than non-graduates *because* they have attended university, as opposed to the personal attributes such as discipline, intellect and motivation developed prior to their attendance.

Secondly, there has been a failure to adequately distinguish between the two senses in which graduates benefit from their education. The first is through skills development: graduates obtain skills that are highly valued by employers, which increase their ability to add value to businesses and thus contribute to the national economy. This benefit is non zero-sum; one person's skill development does not take away from another's. The second benefit of a university education for the student is as a positional good; it improves the graduate's position in society *relative* to others as it signals that they are superior candidates to non-graduates. This benefit *is* zero-sum.

Both advantages contribute to the graduate premium but the volatility of the positional benefit is not taken into consideration; as the participation rate nears 50% the signalling power of the degree diminishes in value and the graduate's relative advantage diminishes. Moreover, [as a recent IF paper shows](#), in many Russell Group university departments up to 100% of students attain a first or 2:1; grade inflation has led to an even greater abundance of graduates with "high-quality" degrees. Thus, the role of a university degree has shifted from a feature that made applicants stand out to a prerequisite. This has resulted in [58% of new graduates working in non-graduate jobs](#). It is time that the government acknowledged the mismatch between the skills developed by students at university and those demanded in the labour market, and the irresponsibility of encouraging young people to take on more than £50,000 of debt on the grounds of the hazy concept of a graduate premium, which is in fact *reduced* by rising participation. The appropriate question is thus: how can we provide an effective signalling device and equip young people with skills more appropriate to the demands of the modern British economy? We ought to be more *cost-efficient* and *ends-focussed*.

2. High quality vocational training is the key to creating a more productive workforce

Aside from successive governments' rhetoric in support of university participation, one of the reasons young people in the UK choose to enter higher education in such high numbers is the lack of a genuine alternative. The government's plan to introduce T-levels and provide three million new apprenticeships is promising, but if the UK is to emerge from the [bottom 25% of OECD countries](#) with respect to youth skill levels, and their ability to develop further skills, then a national standardisation of training, regulation and certifications is required. We ought to look to Germany's hybrid vocational training model, which provides education in specialised colleges and on-the-job in firms, for answers.

The government's introduction of the Post-16 Skills Plan and T-levels is a step in the right direction. The move towards a nationally standardised and streamlined set of qualifications is welcomed, as it provides employers with a clearer understanding of the skills attained by potential young employees and thus more confidence to take them on. The hybrid nature of the qualifications, with three months in enterprise, is also promising, as industry experience prepares apprentices for the workplace in a way that classroom education cannot. Beyond T-levels, the stricter definition of what constitutes an apprenticeship, as laid out in the Enterprise Act 2016, will aid in improving the reputation of apprenticeships as skilled career pathways rather than simply low-paid manual labour. Finally, it is admirable to see the government leading by example in their expectation that apprentices make up 2.3% of public sector jobs.

3. Areas for Improvement

We do still have some concerns about the future development of these schemes however. It is vital that the government sets realistic targets. News that [no-one had yet been appointed to the T-level advisory development panels](#) that should have met for the first time four months ago and about the shortage of placements available for apprentices in industry, promise to undermine support for the plan. The long-term solution to the scarcity of industry placements is a cultural shift — at present, many UK firms differ from their German counterparts in viewing apprenticeships as a matter of “[corporate social responsibility](#)” as opposed to an opportunity to nurture “[skilled, thoughtful, self-reliant employees](#)”. In the short-run, the government should consider limiting the number of T-level entrants in order to ensure the provision of high-quality opportunities in industry and thus to defend the legitimacy of the qualification. Further, due to lack of funding in recent years, schools and colleges are already making use of all available space. Technical skill programmes will require additional classrooms and in some routes, specialised equipment and workshops and there is little room for space-efficiency gains. Therefore, on top of the £500 million already allocated, the government should commit to additional capital investment to allow schools to expand as necessary and construct new, specialised technical colleges. Finally, IF calls for apprentices to be provided with free transport in order to improve accessibility to suitable work placements and to alleviate the financial stress that a minimum hourly wage of £3.50 entails.

Measures that improve the quality and quantity of apprenticeships will lead to a two-fold benefit: they will ease the pressure upon the funding of UK universities, and provide a legitimate alternative for those who desire to pursue their careers along another route.

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise further, please contact:

Liz Emerson, Co-Founder
Email: liz@if.org.uk Mobile: 07971 228823