

Harkness Fellowship Lecture
Universities in Global Competition: how well is the UK doing?
28th February 2007
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(Slide 1)

A small cottage industry of Cassandra analysis of the state of British universities has sprung up in recent years. Some of the prognoses have been almost Spenglerian in their gloom. It is argued that British universities, under relentless attack from a hostile government, are in a state of terminal decline. The competition is intense, and Britain is losing market share. American universities, with their enormous endowments, are sweeping all before them, and such droppings as are left after the Harvard and Yale show has passed by are swept up by bumptious Australian newcomers. For those of us condemned to run universities in these troubled times, our role is merely to manage the decline and fall while perhaps, Gibbon-like, chronicling the mileposts on the route to oblivion.

Some of this gloom-mongering is, or was, rational. Even the Prime Minister said recently that, ten years ago, 'higher education was in the throes of a crisis'. Indeed without creating some sense of urgency or crisis, it is doubtful whether the government's modest fee reforms would have passed through parliament. The PM now thinks, incidentally, that 'we are in a fundamentally stronger position than we were ten years ago', and that 'the abiding sense of gloom that was settling over the sector has been lifted'.

Well, up to a point Lord Copper. The government have certainly increased their investment in HE, and were brave on fees, but with only a half-way house having been reached on student costs, there remains a case for pessimism. We are still in a position where it costs considerably more to teach a British (or European) undergraduate than we receive in income. Indeed any

Russell Group Vice-Chancellor who talks positively about his or her institution risks being run out of town. So take out your handkerchiefs now, and prepare to have your withers wrung. In the run up to the 2008 review of university finances as background for the next pay negotiations, and the 2009 review of the impact of the variable fee regime, woe betide anyone who spies the rosy fingers of a new dawn too early.

Before I get on with the wringing, I would like to enter a caveat about the whole notion of universities as being engaged in a form of competition in which only the fittest will survive. The notion of competitiveness in the university world is one which I find rather difficult. The relatively recent flowering of university league tables creates the impression that universities are to be seen as football teams, engaged in a perpetual contest for promotion or a champions league place. On this analogy, I should see myself as a kind of Jose Mourinho, constantly pressing my Chairman for more funds to add to my inventory of promising academic staff from elsewhere. I should be assembling a bench of non-playing professors, to take them out of a competitor's RAE bid. Or perhaps I should be like Stuart Pearce, prowling the touchline and barking incomprehensible instructions to underperforming, out of position players. If the LSE were Manchester City, there would be economics professors teaching sociology, and sociologists in the accounting department. (Actually, there are one or two, but let that pass).

But universities are not football teams. Their mission and contribution to society cannot be easily captured in a league position.

And it is worth pointing out that the published league tables which are published are rather curious in their construction. The compilers, I am sure, make an honest attempt to produce tables which mean something, but one fundamental problem is that universities are loose combinations of separate faculties or departments. The corporate analogy is not one which makes a lot of sense. A whole institution rating is therefore of doubtful value. The subject

based rankings produced by the FT don't suffer that problem, but they are focused on management education. (For those who wish to know more about these and other problems, Leiden university have held a series of seminars whose papers illuminate the issues well.)

With that lengthy health warning in mind, what do they say? The best known table internationally is one produced by Shanghai Jiao Tong University. On that measure, British universities do relatively well, with 2 appearing in the top 10. (Slide 2) The list is dominated by the Americans, of course, but the UK certainly does well in comparison with universities in continental Europe. How encouraged should we be with this positioning? Well, again, only up to a point. It is clear that there is some English language bias in all of these league tables. The table incorporates a very high reliance on Nobel and other global prizes, which creates a kind of subject bias, given the distribution of these prizes by discipline. The compilers note, for example, that their league table does not easily capture the position of universities with a strong bias towards the humanities and the social sciences. And, indeed, as far as a student is concerned, it is doubtful whether he or she benefits hugely from the presence of Nobel prize winners on the faculty roster since they are far more likely to be in a club class seat on the way to an international conference than in an undergraduate classroom.

A second set of tables is produced by the Times Higher Education supplement. At the LSE we prefer this table, since it places us more highly. We come in at number 17. A different method of capturing peer review is used, and there is less weight on science based global prizes. (Slide 3) But in other respects the Times Higher table is questionable. The peer review process asks academics to rank the faculties of other institutions. How well can people assess the total faculty quality of another institution, even in their own area? The table also weights the percentage of international students at the university, which helps the LSE, but how significant is that of a measure of quality? Similarly, the table is weighted in favour of institutions with an

international faculty. That is likely to act as a bias against universities from a large country like the US, which can more easily recruit expertise from its own nationals, and in favour of smaller countries, who are almost bound to recruit internationally. It is also affected by visa rules, which can hardly be said to have anything to do with the status of universities themselves.

There is a third set of tables, prepared by newspapers here, specifically of British universities, to assist undergraduates with their choices. Typically, the LSE appears quite highly placed on these tables, but again one must treat them with caution. (Slide 4) It is possible to lift one's position on some of these tables simply by spending money, whether on libraries or on more generous staffing. That may be loosely correlated with the quality of educational experience, or may just be a sign of inefficiency.

Should one, therefore, simply abandon the notion of assessing the quality of universities? That is a comfortable conclusion to reach, but it is not one I find particularly appealing. Perhaps that reflects my own background. When I ran the Audit Commission, I came up against one group of professionals after another who told me that their contribution to society could not possibly be measured in anyway, and that we should take their professional expertise and performance on trust. In recent years we have come to think that while single measures and performance targets are dangerous (politically, targets are so 2003). It is nonetheless possible to approach an understanding of professional performance by surrounding professionals with a series of measures of inputs, outputs and outcomes, even if it is never possible to put these judgements on auto-pilot, or collapse them into a single ranking.

So my approach this evening will be to look at what can be said about the different types of output and outcome which might be expected from a university, and how British institutions compare with others in those different areas. In some cases it is possible to cite figures which look meaningful, in others we can only be impressionistic.

I have tried to think about the output of universities in four areas: (slide 5)

1. Research, which might perhaps also be subdivided into pure and applied, albeit a rather by and large sub division with different meanings in different areas.
2. The production of citizens, or perhaps what one might generically call cultured graduates. A university is not to be seen in purely instrumentalist terms, as a factory producing what are now colourfully described by recruiters as “oven ready” graduates, able instantly to take their place behind a desk on the trading floor at Goldman Sachs.
3. Employable graduates – I instantly recognise that, depending on the course, there is usually some employability dimension to higher education, even it is not the prime focus.
4. The university as a forum, a place in which the issues of the day, whether in science, social science or the humanities, are debated in a unprejudiced and open manner.

On these four dimensions, we have some proxy measures in the first, we have rather more reliable data on the third, but nothing much of a quantifiable character on the second or fourth areas. Nonetheless, they are just as important as the other two, indeed some would argue more so.

Before looking at what we can say, however, what about the broader question of the relationship between the quality of universities and national competitiveness?

Here we are on particularly slippery ground. Competitiveness as a notion, when applied to the nation state, is highly doubtful. Nations do not compete like companies or football teams, though we often talk as if they do. Paul Krugman once said that national competitiveness is a notion which has

passed from academic jargon to popular cliché without moving through the intermediate stage of meaning.

Nonetheless, attempts are made by think tank after research department to measure the competitiveness of nations. One input to that competitiveness is frequently seen to be the quality of the workforce, and in turn one component of that measure is the quality of higher education. The World Economic Forum, for example, regress their measure of national competitiveness against a variety of other measures, including the quality of higher education institutions. For what it is worth, that produces quite a tight fit (slide 6). Whether the direction of causation works from higher education quality to competitiveness and wealth, or from wealth to the quality of higher education, is more difficult to assess. But analyses like these cause politicians and others to take an interest in what goes on in universities, perhaps a more intrusive interest than was the case in the past. That is a reality, and we might as well live with it. Furthermore, while we may question any individual element of these analyses, the notion that this is some kind of a link between the quality of output from universities and innovation, productivity and wealth creation is one we should probably simply accept.

And, in spite of my heavy qualifiers at the start, we do have to accept that universities are now in competition with each other to a greater degree than before. At this point there will undoubtedly be someone who wishes to argue that in 14th century Europe, with scholars able to interact with each other in Latin across the world of western civilisation, universities were more closely linked, and perhaps even more directly competitive than they are today. I will simply take that point, if anyone wishes to make it, and move on – as the Prime Minister would say.

Today a university like the LSE certainly has to acknowledge that it is in competition for the best students, all of whom have choices they can exercise, and many of them choices which run across national and continental

borders. We are in competition, too, for staff. The academic job market is one of the most global there is. And in the 21st century English is the new Latin, so universities in English speaking countries are exposed to more intensive competition than those elsewhere. We are in competition for government funding, through the assessment of research quality. We are in competition for research contracts, from public and private sector sources, and indeed we are in competition for the philanthropic pound. Many of our own donors were at more than one university, and indeed think of the LSE's requests alongside those of other charities to which they are committed. That is a competitive environment which is particularly visible to a Vice-Chancellor.

I have briefly explained what illumination league tables do and do not bring to this exercise. So let us now look at such other information as we can bring to bear.

Expenditure is not a bad place to start. Of course inputs do not necessarily produce outputs – I know all that. But it is nonetheless instructive to see how much different countries invest in higher education (slide 7).

Those numbers show that as a percentage of GDP the UK is below the OECD average. What is striking, though, is how far ahead the United States is and, to a somewhat lesser extent, Canada and Australia. In both cases it is the private investment in higher education which is significantly higher than it is in the UK. Australia reformed its fee regime rather earlier than did we, and of course in the US private universities have always charged fees, and public universities too, for out of state students. This aggregate measure is one of the pieces of argumentation which universities have used to press for more funding either from the state, or from students through a more flexible fee regime.

If we look at expenditure per student, which is probably a more relevant measure, than an interesting picture emerges. These figures are a little out of

date, as I cannot find comparable data for a year more recent than 2003, but at that time expenditure per student in the United States was just over twice the UK level. (Slide 8) UK total expenditure per student was broadly similar to German and Japanese, though a little above France and Italy. What is perhaps even more interesting than the absolute numbers is the composition. Here the UK lies between the US and Japan, at one end of the spectrum, where more than half of expenditure on higher education is from private sources, and continental Europe where the proportion is very significantly lower. (Slide 9)

Another dimension on which the UK differed remarkably from continental Europe in the 1990s was in the trend of funding per student. While, in France, public funding per student increased by 15% from 1995 to 2000, and in Germany by 10%, in the UK it fell by 17%. Even though private funding rose somewhat, total expenditure per student fell by 9% during that period while in France and Germany it rose by 13% and 12% respectively, and in Ireland by 54% and Spain by 39%. Things began to improve a little from 2000-2003, but, over the whole period, public funding role by less than anywhere else except Australia, where fees could rise a lot more to compensate. (Slide 10) This was, of course, the background against which the government proposed its variable fee reform four years ago. Clearly that trend in expenditure per student could not be allowed to continue without some material impact on quality. I suspect it has now reversed, though recent internationally comparable numbers are hard to find.

The pressure this trend put on the finances of UK universities had a number of consequences. One of them was to give universities an even stronger incentive to attract non-European students. (European Union students, of course, pay the same fees as domestic undergraduates.) This is not necessarily the best motivation for moving more aggressively into the market for internationally mobile students. Overseas students may well detect that they are being recruited for budgetary reasons, rather than to contribute to

economic development in their countries, or to create a more diverse student body with all the advantages that brings. It may also be that universities are thereby required to charge a higher price than might otherwise be the case, in order to compensate for losses made on domestic students. That is broadly the position in which most universities in this country have found themselves in the last decade or more. If you want to build a sustainable market position, it is not sensible in the long run to charge a higher rate to compensate for structural financial problems at home. But at present we have little choice. It is against that background we should assess how well we are doing in that dimension of higher education competition, in other words how effective are British universities at attracting internationally mobile students?

In aggregate terms, the UK looks as though it is doing quite well. (Slide 11) We host the second largest number of international students, after the United States. And the comparisons with continental Europe are perhaps slightly misleading in that, in France, for example, a very large proportion of their students come from Francophone Africa, under heavily subsidised arrangements, and where it may be argued that those students are not exercising choice in terms of where they chose to go. (Slide 12) That is not in any way to devalue the positive impact of this element of the French contribution to human development in their former colonies, but it cannot be interpreted as suggesting that their universities are strong competitors in the market for internationally mobile students who have a choice of destination.

The UK has, along with the US and Australia, a particular advantage in this marketplace. Far more students are equipped to learn in English, rather than in French or German. And indeed the recent German growth in international students has been fuelled in part by a switch to English medium education in a number of German universities.

So we should look at what is happening in the English medium market. In the first place, it is growing rapidly. Most forecasts, whether by the OECD or the

British Council, suggest that it will continue to grow. There were 1 ½ million foreign students in OECD countries in 2001, double the number 20 years before, and according to one forecast the global demand for international higher education will exceed 7 million students by 2025, four times as many as at the turn of century.

How has the UK been doing during this period of growth? Well, not outstandingly, it would seem. (Slide 13) Our market share has been falling in recent years, with both Australia and New Zealand making headway at our expense. They have some advantages, both climatic and environmental in the case of the major Australian cities, but also in terms of cost. UK fees, for the reasons I explained, tend to be higher than elsewhere, and of course the strong pound has increased the total expenditure involved in coming to the UK for a degree. Whatever the reasons, there are some danger signs here, and indeed we can expect the competitive intensity to increase in the future as more countries move into the English language higher education market.

In the case of the LSE, we have not been as much affected by these trends as some others. The proportion of foreign students in our total intake has continued to rise, and demand remains strong. (Slide 14) That is true both at the undergraduate level, where we have had some remarkable increases in application numbers in recent years, and at graduate level. We have never reduced our UK undergraduate recruitment, incidentally, and at present we are bidding to increase it. I think our long standing participation in this market, combined with a good supporting infrastructure for overseas students, some provided by the university and some provided by their own societies, are all contributory factors to this performance. But we have also made considerable efforts to maintain our profile in important markets. We also take seriously the need to ensure diverse sources of students, in order not to be excessively vulnerable to risks in certain countries, where sudden political or economic changes could rapidly affect the outflow of students.

There is less solid comparable data about staff mobility, though there is some. The willingness of academics to move from country to country has grown in recent years, as have the numbers who are able to teach and research in the English language. For each individual there are many motivations for moves, related to their individual discipline, and their research links. But we cannot ignore the impact of salary differentials.

It sometimes seems that there is a prevailing wind blowing academic staff westwards. At the LSE when we lose faculty for economic reasons, it is almost always to universities in the United States. And we gain staff from institutions in continental Europe where salary levels are typically, though not universally, somewhat lower than they are here. There is some evidence about the sources and destinations for faculty for British universities. (Slide 15) It is not by any means conclusive, and the inflows and outflows with North America across the country are roughly in balance. We are not recruiters from the rest of Europe and the rest of the world. But I think it is the case that through the 80s and 90s academic salaries in this country fell in relative terms, both relative to other competing occupations domestically, and relative to pay levels in the US.

At the LSE we have tried to protect ourselves from the impact of that competition by raising academic salaries. But even we can find it difficult to compete in some areas, and other British universities have been worse affected. Over the last 3 or 4 years, there are signs that relative pay has begun to increase, given somewhat more generous funding from the government on the research front, and the increase in tuition fees. As a result, I would argue that British universities have collectively become somewhat more competitive in this global marketplace for academic talent, but we are still vulnerable to the large private institutions in the United States. The strong pound has made our salaries look higher in dollar terms, but even academic economists can spot that the price level is also likely to be correspondingly higher.

Research is probably the hardest output to assess. There is considerable controversy at present about the way in which research quality should be measured. The Treasury tends to regard the Research Assessment Exercise as a costly and elaborate peer review driven process which produces inward looking mentality, as academics seek to impress each other with the number of citations of their publications in refereed journals, rather than thinking about the broader economic and social benefits of their work. These criticisms are easy to advance, what is somewhat harder is to determine any meaningful alternative to a peer review driven process. In my view, the RAE over the last 20 years has contributed to a strengthening of the UK's research base, and particularly has caused academic staff here to think about how their research measures up in international terms. Whether diminishing returns are beginning to set in now is a more complex question, for another day. But I would like to see a strong element of peer review in any reformed system.

In spite of this increasing focus on the international benchmarking of UK research, there is some evidence, albeit imperfect, of relative decline. The Sutton Trust has produced a report on the geographical location of Nobel Prize winners, which produces unfavourable data as far as the UK is concerned – and indeed for any country apart from the United States. (slide 16).

On the other hand, there is some evidence that in terms of the proportion of research carried out in universities, within individual countries, the position in the UK is not so bad. The OECD calculates that the average share of research in OECD countries carried out by the higher education sector was 17% in the year 2000. The UK figure was just over 20%, higher than in the US, Germany or France, albeit rather lower than Canada at 31% and Australia at 27%. (Slide 17) These data are not easy to interpret, but they do suggest that the UK higher education sector is relatively competitive in terms of its ability to

carry out research – largely in the sciences, where the numbers dominant these percentages. There is some evidence produced by the Council for Industry and Higher Education which also suggests the British universities have been relatively good at working with industry, and relatively flexible in carrying out research on behalf of the productive sector. The share of business carried out by universities rose significantly in the decade to 2000, though it has slightly dropped since then.

If we turn now to the other output from universities, in other words their graduates, what can we say first about quality and employability.

One area in which the UK does relatively well is on completion rates (slide 18). This is probably driven by more careful selection by British universities. Many continental European universities remain obliged to accept students from their local area, many of whom have low motivation and little focus, and drop out quite soon. The British system does appear to cause students to focus attention earlier and more carefully on their choice of degree programme, which contributes to a higher level of successful completion.

There are some who argue that it is easier than it should be to complete a degree successfully. Employers pay some attention to that, in often insisting on a 2:1 before they will appoint or even interview. (But that is an area which is too complex to enter in this discussion).

Employability data is difficult to interpret. It is heavily influenced by the state of the economy at any particular time. There are data about the proportion of UK graduates who secure what we might call “graduate” jobs, but again that is influenced by the economic cycle too. At the moment the figures do not look too bad (slide 19). Perhaps the most useful information can be found in calculations of the returns on expenditure on degrees. Even though the proportion of university age people in the UK in universities has risen sharply in recent years, it would seem that the return on investment, over a lifetime,

remains very positive. Indeed PriceWaterhouseCoopers calculate that the recent fee changes, which result in students paying rather later for their education than before, have actually slightly increased the rate of return on a degree. Comparable data for other countries, shows that a UK degree, on average, looks to be producing a good financial return, rather higher than is most others (Slide 20). Indeed for female graduates the UK is the best place in the world to be?

As I said at the outset, university education is not purely vocational. The government tends to talk about universities these days in the context of its skills agenda, as if all universities were now vocational training institutes. I do not find this an attractive approach, or even a particularly sensible one from an economic perspective. Far-sighted employers know that they want graduates who can solve problems, and who have ways of thinking about the world which allow them to adapt to changing demands through their careers. They want people who do have some grounding in theory, and who will therefore be able to adapt more quickly. They do not expect universities to be a substitute for their in-house training programmes. I could wax lyrical on that subject for some time.

So are universities in fact performing a broader function of producing citizens who are able to develop themselves inside and outside the world of work, who will make a positive contribution to the welfare of others, and who lead broad and fulfilled lives themselves?

This is not a subject which lends itself to numerical analysis, and perhaps one person's opinion here is worth little. Lots of commentators say that things have got worse since the sector expanded, and – a different point – that students are now excessively focused on their job search. So I was struck the other day by a quote from Somerset Maugham, which I came across researching the background for a quite different task in which I am currently engaged – chairing the judges for this year's Man Booker Prize.

In 1955 Maugham bemoaned the state of university education as he saw it. Students, he thought "do not go to university to acquire culture, but to get a job..... they have no manners and are woefully unable to deal with any social predicament. Their idea of a celebration is to go to a public house to drink 6 beers. They are mean, malicious and envious..... They will in due course leave the university. Some will doubtless sink back, perhaps with relief, into the modest social class from which they emerged: some will take to drink, some to crime, and go to prison. Others will become school masters and form the young, or journalists and mould public opinion. A few will go into parliament, become cabinet ministers and rule the country. I look upon myself as fortunate that I shall not live to see it".

Well, the rest of us have lived to see it, and perhaps the outcome of the expansion of higher education which Somerset Maugham feared has not been quite so bad as he forecast. But I do have some doubts about the narrowness of the curriculum we offer in many degree courses. The other side of the coin of the greater focus which I just praised when talking of completion rates, is greater narrowness. We do not offer the equivalent of the first year at Harvard college, which gives students a broad grounding in the liberal arts, with a dash of philosophy and science thrown in. Most British university degrees are tightly drawn. A 3 year programme, which at Oxbridge amounts to little more than 60 weeks of teaching, when the examinations are taken out, and which is perhaps not much more than 75 here, does not allow much scope for experimentation or for exploring cultural or intellectual byways. Students depend rather heavily on themselves, and on their extra curricular society activities, for the broadening experience – and many of them pick up that challenge with great enthusiasm. The drama, visual arts and literature societies here at the LSE are cases in point. But is that enough? I am not sure that it is, though I confess I do not have an economically viable plan to correct it.

What of my last category, the university as public forum? Here we take this role very seriously indeed, and run an extensive series of public lectures. Typically we now mount 100 events a term which are accessible to the public. Demand for these events is growing all the time, suggesting that there is a market gap to be filled by universities. (Slide 21). If this were a separate category in the league tables, I suspect the LSE would come top.

The picture I have painted so far is one of light and shade. British universities have gone through a difficult passage, with declining funding and poor morale. There is now a glimpse of a better future, with somewhat stronger funding, and a prospect of a sounder financial base. In important markets we have lost some market share, but remain very strong competitors. There are signs that we are vulnerable to the loss of research stars to super competitive institutions elsewhere, but no evidence of an across the board decline in research quality.

But what of the future? To some extent, it will depend on money. Will the 2009 review of the impact of variable fees demonstrate that the new regime has not put off applicants, and has not affected the social composition of our universities? The initial signs are reasonably good, but it is too early to make a firm assessment. Will the government maintain its promise to continue its grant funding at the same level as before, allowing fee income to be genuinely additional? That will no doubt depend on the overall public expenditure prospect, and on the priorities of the new Prime Ministers, whether Gordon and Gordon, or Gordon and David.

Will the new incentives for philanthropic giving to universities, announced by the Prime Minister a couple of weeks ago, make a significant impact on the capital base of our institutions? The current comparisons between British and American institutions are extremely pessimistic on that front (slide 22). Apart from Oxford and Cambridge, we are light years away from the major private institutions, and even from many public universities in the US who have been

remarkable successful in recent years in attracting funding, even against the background of being publicly funded – something which is supposed to be an obstacle in the UK to attracting alumni contributions. The government matching scheme will help, I think, though the numbers are relatively small - £200 million for the entire sector.

On all these points, the jury is out.

But I would rather end on a slightly different note, about the way in which the international environment is likely to change. Because I fear that if we focus only on the current position we may miss some bigger trends, and may cause ourselves to adopt a more sanguine view of the prospect than is appropriate.

In my view the competitive environment for British universities is likely to intensify considerably in the coming decades. We have seen new competitors in Australia and New Zealand emerge very quickly, and begin to eat our lunch. There are new competitors, too, in continental Europe offering English medium education at a heavily subsidised price. I suspect that will continue. Even though there are some pressures in continental Europe to introduce fees, they remain at a very low level by comparison with those in the UK and the US, and I cannot see them coming up to our levels for some considerable time.

There are other forms of competition emerging, too. Some universities have been ambitious in setting up campuses in other countries, countries which are the sources of many overseas students in the UK. American universities, or Australians, setting up branch operations in South Africa, or parts of Asia, are offering a subtly different proposition to the ones which students in those countries have faced before. Few British universities have yet gone in that direction, and it is quite hard to situate trans-national offerings within our structures. We have the University of London external programme, for

example but that is a different proposition from a Monash University degree delivered on a campus in South Africa.

Furthermore, we are beginning to see the arrival of private universities, in some cases run by companies with sizeable financial resources. They are not much interested in research, and can produce very focused teaching programmes, perhaps with non research active faculty, but who are more single mindedly devoted to the teaching role, which, for many undergraduates at least, is no bad thing.

The Bologna Process, in creating pressure for other European countries to adopt a model of provision which is more comparable to the one prevailing in English speaking countries, has in fact helped universities elsewhere to become more effective competitors in the international market place. It is hard to advance that as a reason for opposing the Bologna Process, but we would do well to have our eyes open to the implications. We are levelling the playing field, and we used to be on the higher ground.

Lastly, there is the potential impact of the general agreement on trade and services. For the time being, the Doha round is stalled, and so are discussions on the impact of GATS on higher education. But there is some chance that new momentum will eventually be found for international trade talks, and we should recognise that there have already been proposals to open up the higher education market to providers from elsewhere. It is quite possible that developments in GATS, and indeed on the EU Directive on services and the internal market, will intensify competition. There are some doubts about how precisely how far the markets will be opened up, but we must recognise that the changing fee regime in the UK potentially makes our undergraduate market an attractive one for private providers, and if a new GATS agreement makes it impossible to exclude them, we will see new forms of competition. It may also be that new EU rules will expose research contracts and research grants to competition from other providers, whether universities or indeed

other entities, across Europe. Are our universities ready for that competition? I suspect not. We do tend, when we pitch for research funding, to think of the competitive environment as being one which includes only UK publicly funded universities.

These points are, I recognise, somewhat speculative, but there have been enough debates in the WTO framework, and in Brussels, for us to begin to think now about the way in which greater openness, and greater competition will affect the sector. I suspect we will, within a decade, need to think about our markets in a very different way. There is no reason why we should not prosper in this changed environment, if we are fast on our feet, but we will need a very different form of market intelligence, and a more active approach to collaboration and competition.

The LSE, as it happens, now has a strategy to handle all this. But in this new, tougher, dog eat prof, competitive environment I am not about to tell you what it is.