Rethinking Public-Private Mix in Higher Education:
Global Trends and National Policy Challenges

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Gilani, Zulfiqar    Pakistan
Kim, Sunwoong (Leader)  U.S./South Korea
Landoni, Pablo  Uruguay
Musisi, Nakanyike  Uganda
Teixeira, Pedro.  Portugal
Introduction

Globally, higher education is experiencing a rapid and unprecedented expansion. That combined with rapid socio-economic and political changes have necessitated policy changes in higher education. Tight national budgets combined with increased demand for higher education and enrolments have forced countries to relax their controls over the provisioning and running of institutions and created a fertile environment for the growth of private higher education. Moreover, higher education is increasingly being shaped by market forces (Slaughter & Leslie 1997, Teixeira et al. 2004). These policy changes have created quasi-markets that have encouraged institutional competition within and between the public and private sectors. In many countries, especially outside the OECD, there has been a rise in the proportion of the 18-24 year old secondary school graduates willing to access higher education institutions.

Within this expansion a number of features are salient. First, over the past two decades, the global trend has been towards privatisation. This has led both to the growth of private institutions and to the adoption of private-like behaviour by many public institutions. In many countries private higher education is expanding more rapidly than public institutions, and this growth is also taking place in countries where it would have been unthinkable two decades ago.

Second, there is diversity within the private education sector. The expansion of the private sector has been marked by (a largely demand driven) institutional differentiation within national and regional systems. While some private institutions mimic existing ones, others are different in their governance, operations, and academic offerings. The latter
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evokes a certain level of mistrust of private institutions by the traditional public sector, and is also forcing a revisit of definitions and purposes.

Third, there are continuous but fluctuating interactions between governments, institutions, and market demands. The development of private higher education has been often associated with the growing strength of market trends in higher education, not only at the national level, but also international level because of increasing trans-nationalization of higher education activities. These trends continue to pose ever-new challenges to regulatory bodies.

Fourth, institutionally it is becoming increasingly difficult to draw sharp distinctions between the public and the private, as each adopts aspects of the other. The private dimension has steadily and systematically gained prominence in many public institutions. For example, new systems of management and administration have been introduced in public universities; financially, there has been a diversification of the resource base to complement basic public funds, which makes public institutions increasingly dependent on private sources (of funding). Similarly, many private institutions claim that some of the roles they perform have a clear social value and therefore public authorities should acknowledge that when allocating funds. Overall, there is a blurring of the distinction between the public and private sectors.

Finally, this expansion in higher education, and especially of the private sector, has been largely unplanned and insufficiently regulated in most countries. Thus, the debate about the current state in higher education policy and the need to address the current mix of public and private sectors is fraught with complex and urgent issues. Paramount among
these challenges is the difficult balance, at the political level, between maintaining broad access, especially for disadvantaged students, and upholding academic standards.

The overall goal of this essay is to provide a framework for a better understanding of the public-private mix of higher education and a set of policy guidelines in dealing with the expansion of private higher education from a comparative perspective. Specifically, it attempts to:

1. Examine the context of development of private higher education globally, regionally, and nationally;
2. Investigate and analyse trends, factors and dimensions fuelling the rise of private higher education in a comparative perspective;
3. Analyse the issues and challenges facing both public and private higher education institutions in the performance of their functions, in a comparative perspective.

We propose a distinctive framework to examine the changes we are witnessing in the proportion of public and private provision of higher education globally. It is envisaged that the model will engender a better understanding of the phenomena as they unfold.
The Development of the Public-Private Mix in Higher Education: Historical Trends and Recent Changes

Private higher education is both an old and a new reality. Many of the earliest universities established were non-governmental initiatives. Even when founded by royal or papal decree, these were normally autonomous institutions from a material and organizational point of view. Many of the earliest universities were established by the Catholic Church and could be regarded in many ways as private institutions. However, those universities were not fully ‘private’ in the way the term is currently understood. They had a public orientation and were significantly controlled by religious and secular authorities. In fact, the small role that until recently private forces had in higher education has to do with its European origins as most universities worldwide were modelled upon their European forerunners.

The process of secularisation of most European universities reached its zenith with the liberal movement at the turn of the 19th century and was fostered by the growing human resource needs of the modern state. The growing state bureaucracy in the European states increased the demand for qualified staff to perform expanding and increasingly complex tasks. The more the universities served as a supplier of qualified labour for the state, the more the latter increased its control over them at multiple levels: financial, administrative, educational, and political (Gerbod 2004). Universities became increasingly accountable to state authorities in the mid-twentieth century. The increasing financial dependence of universities also led to significant loss of academic autonomy. This reached its climax with
the so-called legal homogeneity, in which governments defined a standard curriculum and syllabus in specific fields.

By mid-twentieth century, in most countries (the U.S. is an important exception), private institutions were non-existent, and even where they existed, their relative size was much smaller than the public sector. Despite the foregoing developments, private higher education persisted in many parts of the world and in recent decades its position has significantly strengthened worldwide. This situation has been changing rapidly and significantly in recent decades, with the emergence of private higher education as a global reality. Below, we trace the development of private higher education internationally and the main reasons for this significant global trend.

The Emergence of Private Higher Education Worldwide

In the last decades higher education has been experiencing a notable growth of the private sector worldwide (Altbach 1999). This phenomenon has been especially evident in Central and Eastern Europe, Latin America and Eastern Asia, where increasing number of students willing to access higher education are creating stress upon traditional public universities.

Higher learning has a long history in Africa under the Muslim rulers, as illustrated by institutions like Al-Azhar University in Egypt (969) and Al-Qairawan University (956) in Morocco. However, the first private higher education institutions were established in the mid 19th century, beginning with the establishment of the Syrian Angelical College that later became known as the American University of Beirut (1866), and the National University in Cairo that started as a private university in 1908 but
became a public university as Cairo University and then American University of Cairo in 1919. Throughout the twentieth century, especially after the independence of many Arab countries, almost all new universities were established as public universities. This trend of public hegemony continued until the 1990's, which witnessed the emergence of massive growth in higher education demand that strained the financial resources of the states, leading to the re-emergence and rapid increase of private universities and institutions. However, low incomes of large sections of the populations have been an impediment in faster development of the private sector in many Africa countries.

In Asia, where western-style higher education developed rather late, private higher education became a significant feature from an early stage in several countries (Shils and Roberts 2004). The Philippines, which was the first Asian country to have a university inspired by Western models, also pioneered private higher education. In colonial times were established some institutions by the Catholic Church and in the twentieth century was founded the for-profit Far Eastern University, which attained University status in 1934. The creation of universities in China and in Japan was interwoven with the debate about the extent of openess to Western civilization. In both countries private higher education developed quite early, in comparison with the establishment of their public counterparts. Private higher education is therefore not a new development in a number of Asian countries and has gained legitimacy in Japan, India, South Korea, Philippines, Indonesia, and Taiwan. Enrolment in the private sector in most of these countries ranges between 60-80% of total higher education enrolment. Private higher education are also expanding rapidly in many other countries such as Bangladesh, Thailand, Malaysia, China, Vietnam, Cambodia, Pakistan, and other countries of Central
Asia (Altbach 2002, Lewis et al. 2003). It is noteworthy that there also are a few examples of high-quality private universities in Asia.

Although in medieval times the Catholic Church has a major role in establishing most of the pioneering European universities, in modern times Europe became a long time bastion of public dominance in higher education. In recent decades, and despite the increasing willingness of Western governments to adopt market-like mechanisms, the existence of private institutions remained minimal (Teixeira et al. 2004). In fact, privatisation occurred mostly by increasing the private-like aspects of the dominant public system, through stimulating competition in terms of students and funds. The confessional institutions that survived until modern times also often got assimilated into the public sector, often through financial mechanisms. Although these institutions were nominally private, they were funded and supervised as any other public universities. The few exceptions were institutions established by the Catholic Church. The only significant exception to this Western European pattern is Portugal, where a very large private sub-sector developed during the last two decades.

The major surge in private institutions emerged more recently in Europe. With the collapse of the communist regimes, private higher education became a significant feature of many higher education systems in Central and Eastern Europe. In the last 15 years the trend in these countries has been towards more participation in higher education through private higher education institutions, especially in countries like Poland, Romania, Estonia, and Moldova (Lewis et al. 2003). However, demographic patterns seem to be contributing to the slowing down of demand in some Central European countries, which could negatively affect the private sector.
The role of religious institutions was particularly important in the development of private universities in Latin America (Levy 1986). The first universities, established after the arrival of European colonizers, could not clearly be categorized as public or private because of the fluid connections between the Catholic Church and the political establishment. With the ascent of modern states, most of the universities were taken over by them and in the 19th century higher education became almost entirely their monopoly. By early 20th century only about six private universities remained, which were sponsored by the Church. However, the twenties and thirties saw a slow but visible resurgence of Catholic universities in Colombia, Chile, Bolivia and Peru. The new Catholic Universities were a defence against growing secularisation, and an attempt to retain some of its earlier social and political influence.

Private higher education in Latin America has increased markedly in size. Recent studies indicate that enrolment in Latin America private institutions of higher education has increased between 1960 to 2003 from about half a million students to more than 12 million, an increase from 15.2 to 47.5 per cent in terms of enrolment rate (GUNI 2006). In terms of quality, several of the prestigious universities in the Latin America region are private, most of them established during initial wave of privatisation, and largely religiously affiliated. Moreover, some of them are treated as if they were public in terms funding (e.g. Chile). Recent waves of privatisation are demand driven, and many private institutions have taken the lead in that.

In North America, the role of religion that was very important in the establishment of the first higher education institutions, diminished by the 19th century. Although many colleges were sponsored on a private denominational basis, they had
developed a system of lay government (Hofstadter 1996). Many private institutions established in modern times, often by fervently religious individuals, had a much less confessional tone than the earlier private initiatives. The visibility that private institutions achieved in US higher education was partly due to the influence of the German model of university. A number of private universities established at the turn of the 20th century set the pattern of giving importance to research activities and graduate education. The growth of research universities, which by the mid-twentieth century would become most of the elite of the US higher education system, was until WWII largely funded by private sources. Due to this history, some private universities attained a prominent status within the system that would forge many of the ideas (and myths) about US (private) higher education abroad, especially in the second half of the twentieth century.

Changes in the Role of Government and the Public-Private Mix in Higher Education

There are several important reasons explaining this global expansion of private higher education. One of the major reasons has been the growing role of market forces due to the crisis of the welfare state in the 70’s and 80’s, which severely reduced the capabilities of governments to finance higher education. The growing cohorts of students and the rising costs of higher education, coupled with the increasing financial restrictions due to the limitations in the growth of public expenditure, has forced governments to rethink the funding of higher education. In recent years governments have experimented several possibilities to overcome the financial limitations without hindering the desirable expansion of higher education. The recent trend towards the introduction of market-type
mechanisms (Jongbloed 2003), which has increased student choice and stimulated institutions to compete for them, is part and parcel of that context.

The emergence of private institutions has also to do with the changing perceptions regarding higher education. During the last decades, higher education has been increasingly placed under pressure to become more adaptable and responsive to social and economic needs. Private institutions are expected to demonstrate greater adaptability and competitiveness that may enhance the external efficiency of the higher education system. The effects may be also indirect, by stimulating similar behaviour from their public counterparts.

The pressure for greater responsiveness has become even more significant due to the global trends towards mass higher education. Even in countries with low per capita income, the aim to enrol higher and higher proportions of the younger cohorts has claimed a higher priority in national policy agendas. The expected effects of higher education regarding national competitiveness, technological spillovers, and other externalities, has fostered governments’ ambitions to develop mass higher education systems. This is not only costly, but there is also the view that a mass system should provide greater choice because of the growing diversity of students and labour market needs. Private institutions are also often portrayed as being more innovative, though the empirical evidence thus far has been mixed at best (Teixeira and Amaral 2001).

The increasing privatisation of many higher education systems cannot be dissociated from changes in the nature of government regulation. Governments struggled to develop new frameworks to deal with the challenges of rapid growth in higher education as the State control model came under increasing stress (Neave & van Vught 1991). Public
universities became wary of losing their status and financial stability; but enjoyed the new autonomy to pursue private-like activities. Changes in government intervention have not been homogeneous around the world. However, there are evidences of a strong trend of a more modest higher education regulation by the state, relying more on a mix of autonomy for the institutions as well as enhanced accountability of service provision (Altbach et al. 2005). These realities produced important changes in public universities transforming them into more private-like endeavours, at the same time fuelling the development of private institutions.

Most governments in middle income and developing countries were not adequately prepared for massive private growth (Levy 2002b). Their already weak existing higher education systems had to address the additional challenges of a burgeoning private sector. Consequently, state policies have been mostly reactive and attempts at regulation have been usually made after the emergence of private institutions. And in many instances regulatory mechanisms are patchy and dysfunctional. Government reactions to private development also vary among countries and along time, where extremes go from countries with laissez-faire policies towards the private sector (e.g. Chile in the 80’s) to strict supervision and control (e.g. South Korea). Within those extremes much variety can be observed. However, from a regulatory point of view the introduction of evaluation and accreditation mechanisms is a common practice to assure minimum standards in increasingly complex and diversified systems.

Private universities have been performing different roles as competitors in more open systems. Mostly they have facilitated access to higher education accommodating students not able or willing to study in the public sector higher education institutions. In
several countries private institutions have played a relevant role in massification, attracting new students with almost no cost to the public purse. Yet, concerns often arise over the quality of program provision by private institutions, bolstering demands for government action in terms of quality assurance. In several countries, especially low-income, the expansion of the private sector has also raised concerns for equity and access since full-tuition private institutions were regarded as clearly beyond the economic potentials of many families. Thus, the ascent of private higher education has created important policy challenges.

Despite those changes in higher education and the fast expansion of the private sector, governments continue to hold a major role in steering the higher education sector. They play a major role in defining the main objectives of the higher education system, determining the instruments to attain those objectives and assess the performance of those instruments regarding various criteria. Therefore a unified and coherent, but flexible, theoretical framework is proposed that can be applied in different countries and diverse systems. This framework attempts to devise the contexts that led to the emergence of the private sector, the functions that is expected to perform and the criteria according to which it will be assessed.
Public-Private Mix

An Analytical Framework for Understanding the Public-Private Mix of Higher Education

Despite significant changes in higher education as a whole and the rapid expansion of private higher education, governments continue their role in regulating the sector. They attempt to determine the main goals of the higher education system, assure the existence of quality mechanisms, promote fair and equitable access, and stimulate the efficiency of the system. In recent decades changes have occurred in the instruments and mechanisms used by governments to achieve those ends. However, new policy approaches are required that could address such a diverse and complex system, which may be beyond the traditional bureaucratic methods. Therefore a unified and coherent, but flexible, theoretical framework is proposed that can be applied in different countries and diverse systems.

The proposed theoretical framework has three interrelated components, namely the context in which private higher education has emerged, the dimensions for the analysis of private higher education, and the functions and missions of private higher education. Additionally, it is important to be able to evaluate the higher education system using a set of universal criteria.

The external context in which institutions operate has to be understood. The external context includes, the historical traditions in which the role and functions of institutions are defined, the level of socio-economic development, and the like. The context is the combination of mostly exogenous factors that policy-makers may consider when exploring options for reforms. In the long run any of the elements of the context may
change, but they can be assumed to be fairly stable during the time horizon of policy makers.

The socially accepted functions and missions of higher education institutions should be identified. These functions may differ quite substantially across countries. In many respects, these functions crucially depend on the context. That is, public policy goals are important determinants of the functions. For example, in some cases, higher education sector is regarded as the social instrument for the development of highly skilled workers who become leaders in a variety of sectors. In other cases, higher education is regarded a basic need that should be provided by the government, usually without any tuition payments. Clearly, differences in social expectations impinge on the functions an higher education sector is to perform. However, some functions are considered generic and others are subject to the demands of a particular society or market.

Third, as the main goal of our effort is to analyze the public-private mix of higher education, it is important to identify and think through the dimensions that are used to define and distinguish between public and private institutions. Although the ownership of an institution is important in classifying an institution as public or private, that is overly simplistic. The sources of funding and the level of autonomy of an institution are also important criteria.

Finally, the purpose of the comparative analyses is to be able to evaluate the system in its own unique context using uniform criteria. The most widely accepted criteria in the evaluation of public policy are those of efficiency and equity. Since higher education may serve non-economic objectives such as national identity, and as a vehicle of a nation’s cultural heritage, its effectiveness on those counts should be considered as well.
Dimensions of Private-Public Mix: Lack of Common Definitions

How ‘public’ or ‘private’ is a higher education institution is understood quite differently by different people. Many view that private implies private ownership; to others private means that the institutions are seeking profits, overtly or covertly. In some cases, private means operational autonomy in academic and administrative affairs free of government regulations. The different meanings with which the same terms are being understood add to the confusion and conceptual difficulties.

In proposed framework the four dimensions are used to understand and explore the public-private mix in higher education. These dimensions are commonly used in the discussion and definitions of public or private institutions and they can be useful in designing policy options regarding the public-private mix of higher education. Analyses of these dimensions would enable an understanding of how policy measures can be used to achieve certain policy goals. For example, even if the most compelling social objective is access to higher education, it does not necessarily mean that it should be provided by the government. Greater access can be achieved by the higher education sector with substantial private sector involvement as long as the cost to the end-user is reasonable.

The four dimensions used to understand the public-private mix in higher education are:

1. Source of funding. How are the expenditures of the higher education institution funded?

2. Ownership. Who owns the institutions? That is, who has the right to the residual profit?
(3) Autonomy. The quantum of academic and administrative autonomy granted to the institution.

(4) For-profit or not. To what extent is the institution seeking profits (regardless of its formal legal definition)?

**Funding**

Higher education institutions are funded in a variety of ways. The proportion of government support and the modalities of funding to institutions vary across countries. In a particular country, different tiers of government (central, provincial/state, or local) may be involved at various levels. Also, government funding can take various forms. Institutions can receive direct government allocation, either for capital costs only, or also covering some or all operating expenditures. In many cases, the allocation of government funds involves a complex political process. Not only the amount of the budget, but also the way in which the budget decisions are made and the disbursement modes can affect the performance of an institution. In many cases, the government supports institutions indirectly, commonly through government grants distributed to institutions, schools, and individual professors. The distribution maybe based on open competition or at the discretion of the distributor.

The most obvious and widely used (private) funding of higher education is tuitions and fees charged to the students. The reliance on student fees varies widely across countries, sometimes among institutions within a country, and at times within an institution where different programs may have differing charges. It is well known that the cost of higher education increases rapidly through the development process, faster than the rate of growth
in per capita income. The wages and salaries to the teaching staff account for the bulk of higher education expenditure, and the productivity of such teaching rises much slower than the industrial sector. Therefore, without government support or substantial private donations, the cost to students is likely to grow more rapidly than the rise in personal income.

Another important private funding source is gifts by corporations, philanthropic organizations, and individuals, particularly alumni of the institutions. Again, this varies widely across countries and across institutions within a country. The critical limitation of private donations is the supply. The following factors encourage the supply of donations: Tax laws allowing philanthropic donations to higher education institutions; better college experiences, particularly residential campuses with strong school identity; more organized professional development efforts by the institution; and indications of better school governance, transparency, and lack of institutional corruption. While institutional loyalty may be the major factor of private donations for students, alums, and families, corporate donations maybe motivated by the value of public relations or corporate profits.

Ownership and Governance Structure

When the institution is established by the government and the most of the capital and operational costs come from the government, ownership and identity is clear. However, ‘government’ could refer to different entities: There are different levels of government, i.e., central, provincial/state, or local government; and ministries in different sectors may establish an institution. For example, Ministries like Agriculture, Telecommunication, Transportation, Science and Technology may establish specialized universities. Thus, there
may be more than one government entity involved in the operation of the institution. In some countries, public ownerships sometimes are transferred from one branch of government to another, or from the government to a private, autonomous governing bodies. For example, recently in Japan, the governing rights of many public universities have been transferred from the Ministry of Education to independent boards of trustees mimicking privatization of public enterprises. However, such privatization is more complicated than that of a profit-seeking corporation, as various stakeholders of the higher education sector, like students, parents, and others try to exert their voices in the decision making process of the operation of the institution. The influence of stakeholders in and outside of the legislated governance system cannot be avoided because the choice of the governance structure itself is a political process. In some cases, the board members are appointed by the government; in other cases they are elected by voters; in still others, certain stakeholders are given the authority to appoint predetermined number of board members. Obviously the choice of the selection of the governance structure and its board members would influence the incentive structure of the stakeholders and thereby the operation of the institution.

The simplest ownership of a private institution is sole proprietorship, in which a single person or organization ‘owns’ the institution, and there is seldom dispute about where the residual claim belongs. However, the life of the organization is typically longer than a natural person. Without clear transferable shares of ownership, the ownership may be diluted to several family members or key top executives over time. Therefore, in time even the clearest form of private ownership may be faced with complexities. In this regard, the for-profit higher education is likely to retain the clearest form of ownership over time.
Operational Autonomy

Independent of the ownership of a institution or how it is funded, autonomy in academic and administrative affairs can vary substantially across countries. For example, even when the institution is established by the private sector and bulk of the funding comes from tuition payments by students and/or private donations, the institution may be subject to a great deal of government regulation in academic and administrative affairs. It is a common understanding that privately owned institutions are allowed to have a greater autonomy than public ones. In a given country that may be true. However, such an assumption could be misleading in cross-country comparisons.

In general, all central governments regulate the academic and administrative affairs to some degree. There are several reasons for this. For example, government may impose certain quality standards. While that may establish quality control, it could also have negative consequences. The creativity of faculty members and innovative academic programs may be blocked, resulting in uniformity of academic programs across institutions. More importantly, the regulators may not respond to the market need effectively, so that the provision of higher education services may be very different from what students want or need. A second reason of government regulation is to promote access. Under a total market-driven provision of higher education, it is likely that students from lower social economic status would be priced out. The government may use its regulatory power to increase access to such students. A commonly used mechanism is price control, that is, keeping tuition costs lower than what might have prevailed in an openly competitive market.
**Institutional Goals**

Higher education institutions may have diverse private and public goals. Generally private higher education has a for-profit orientation. However, many private institutions do not compete for higher profits, but for better reputation, especially when there are a variety of influential stakeholders and no single proprietor. In such instances, pursuit of reputation is a more important goal than profits. For example, for students, getting the best education with the lowest cost may be the major goal; for faculty, to teach and conduct research at the best institution with the highest salary would be the major goal; for administrators, high salary with the best fringe benefits would be the major goal; for alums, the best connection to other successful and influential alums would be the major goal.

For non-profit institutions, survival would be the primary institutional goal. When the long run sustainable survival is secure, then it needs to satisfy the objectives of the stakeholders. Since different stakeholders may have conflicting objectives, the institution needs to have a functioning governance structure that can handle such conflicts. Institutional goals will be determined through this process. Therefore, institutional goals depend on the composition of the stakeholders and available resources. For example, a well established private institution with a very large fiscal base, the most likely institutional goal is to improve reputation, as the pursuit of excellence is a goal that appeals to virtually all stakeholders.

In some countries, for-profit institutions are legally permitted. In such cases, they need to compete with public and non-profit private institutions. Therefore, they penetrate the market in which higher education demand is the highest and the cost of delivering such
education services are the lowest, such as business administration, information and technology oriented disciplines. Disciplines in which either costs of delivery are very high (such as medical schools) or demand is low (such as humanities) will not be usually provided by for-profit institutions unless they are able to recover the cost through tuition fees. In other countries, for-profit institutions are not permitted by the law, though the so-called not-for-profit institutions operate just like the for-profits. Some use illegal methods to move funds from the institution to the effective owners, as the incentive for profiteering is so great.

Market forces take over when a for-profit organization has major financial difficulties, forcing it to shut down, or change hands to be restructured by merger and acquisition. However, closure or radical restructuring may be traumatic for many stakeholders (e.g., students cannot finish their degrees, faculty members lose their jobs, etc) and is likely to become a political matter. Therefore, where for-profit private institutions are allowed, greater flexibility is needed in dealing with and mitigating financial difficulties.

Context

The evolution of a higher education system in a country is influenced by a multitude of historical, political, social, and economic factors. Therefore, it is necessary to identify such contextual variables as they are crucial determinants of the scope and functions of the higher education system or a specific institution within the system.

Different countries have different historical tradition with regards to the provision of education in general and higher education in particular. In some countries the availability of higher education limited to a few elite. In other countries, higher education
has been massified. A major dimension in which the historical context is relevant for the development of private higher education is the relationship between the state and civil society, including religious organizations.

A very important contextual factor for most countries is the inter-relation between higher education and the remaining educational system. To start with, the most important single determinant of the demand for higher education is the number of secondary education graduates. The demand for secondary education in turn depends on the number of children completing primary education, as well as on how the secondary sector education is financed. Combined with universal primary education, free secondary education would create a large number of high school graduates. Obviously, the ability to finance universal secondary education depends on the fiscal capability of the state. Free primary and secondary education requires substantial government resources, and correspondingly reduces the fiscal capacity to support higher education. Such trade-offs between different levels of education are more crucial in low income countries.

A contextual factor that is also highly significant for many countries, especially developing ones, is the growth and changes in demographic terms. Growing population and, particularly, increases in the conventional college going age groups (17—23) raise the demand for higher education. Depending on the country’s demographic situation, the number of college-bound students may fluctuate. Besides the market response, the younger population would promote more spending on education (rather than, say, health care) through the political process. Although it may be difficult to predict how demographics affect political dynamics of a country, government spending in education is likely to be skewed toward the young. Thus, if a country has more young people, the younger
generation benefits while the older generation pays. Therefore, current and projected demographics should be examined carefully when the private-public mix of higher education is discussed.

The income level of the population is also an important determinant of the demand for higher education. From a perspective of human capital theory, the marginal return of high education will increase as the level of economic development progresses. At the high level of accumulated capital, the marginal productivity of worker is high, so are the wages. Moreover, in the knowledge-based economy, the return for advanced education is likely to increase. Therefore, one would expect higher demand for higher education in a country in which income level is higher and/or where the economy is more knowledge-based. The general income level of a country also affects the fiscal resources that can be mobilized for higher education. Although the level of government expenditure on higher education depends on tax rates and the political will of the nation as well, national income is one of the most important determinants of the amount of the public resource available for higher education.

The rising demand for higher education raises different challenges depending on the historical tradition of higher education in a country. For example, for a country such as Germany, with the tradition of low enrolments, open admission, and heavy government financing, the rising demand would create fiscal pressure on the government and the lowering of standards of instruction. On the other hand, for countries such as China and Brazil, with low enrolments, competitive admissions, and heavy subsidy, rising demand will create a second-tier-overflow university system in which public universities (with no or low tuition and high instructional quality) are at the top and private universities (with
high tuition and lower instructional quality) at the lower rungs. In countries like Pakistan and Egypt with rising demand, greater entry of private higher education, including for-profit universities, is the likely outcome. In such cases, low quality and standards and the possibility of corruption in private universities would be major policy concerns.

Another important aspect of historical tradition is the financing of higher education. In some countries, higher education is provided free of charge or with very low fees, because it is financed by the general tax revenue. When college education is free, it mandates the enrolment rate be lower. If there is a policy of massification of higher education, the government will be faced with a severe fiscal strain. Therefore, when higher education is a social right with no or very little student fee and it is heavily subsidized by the government, enrolments have to be limited to ensure sustainability. It is ironic that the noble social goal of free higher education seems incompatible with the goal of universal higher education.

Another important contextual factor is the regulatory framework. In systems where there is a significant degree of self-regulation, institutions are less likely to give up their autonomy unless there are tangible benefits associated with regulation. The greatest strength of the self-regulation mechanism is that it is more attuned to changes in the higher education system and likely to accept the initiatives member institutions take in dealing with such changes. Another strength is the capacity to accommodate diversity among institutions. On the negative side, the system can be hijacked by established institutions that pursue a specific set of goals. Should this happen, the self-regulation system may not survive as that increases the likelihood of members opting out of the process.
Another dimension of the regulatory environment is the distribution of power among central, provincial/state, and local governments. If power is concentrated in central government, it is likely that centralized control and bureaucratic governance prevails. Decentralized systems, on the other hand, create more grass-root democracy in which lower levels of government and citizen participation is greater. However, in most developing countries where governance structure is generally weak, there are sharp divisions and contestations over power, and usually the systems are also corrupt. In such an environment the higher education system also suffers.

Function and Missions of Higher Education

There are many stakeholders in a higher education system: students, government, faculty, research staffs, management and administration, industry, and the general public. Because of multiple stakeholders, a nation’s system has several, sometimes conflicting functions. The primary purpose of a higher education system is the education of students. Higher education covers the high end of formal educational system and there is ample evidence that higher education increases workers’ life-long wage profile. Also, higher education seems to equip individuals better on how to lead a longer, fuller, and more productive life. For example, a more educated person is likely to live longer, indicating that they are more aware of ways to live healthy life styles.

The primary mode of the accumulation of human capital at the higher education level is through teaching. Therefore, teaching is one of the most important functions of higher education institutions and the primary beneficiaries are students. Institutions can either be comprehensive or specialized. A comprehensive institution, typically with tens of
thousands of students and hundreds or thousands of faculty members, offers a wide spectrum of academic disciplines. On the other hand the specialized institution often has a narrow academic focus. The size and comprehensiveness of program offerings may vary depending on the institutions’ pedagogical approaches and their institutional history.

The recent rise in demand for education spills over to non-traditional students. There are more part-time students who pursue higher education while they maintain full-time or part-time jobs. In developed countries, there are more returning students, who return to higher education after participating in the labour market for some time. Also, many retired persons seek higher education in an attempt to broaden their intellectual horizons. However to these people, it appears that such education is more of consumption rather than an investment activity.

Another major function of higher education relates to research activities and the advancement of human knowledge. As most research activities involve teams of scholars and assistants, they are closely linked to graduate education, which is essentially training of future researchers. Research activities are in general more costly than teaching: The teaching staff for graduate education is usually better trained and consequently less widely available; their salary level is higher; they also need bigger and more expensive libraries, laboratories and related facilities.

A developing nation or a particular smaller institution may specialize in teaching, because it is less expensive. Such a nation can effectively ‘import’ graduate education by sending their citizens to more developed nations, which is commonly called brain drain. However, if the nation is able to recover some of the expatriated brain drain, it may be cheaper than try to provide similar graduate education domestically, just like the firm in
developing countries finds it cheaper to purchase an advanced technology from a foreign source rather than to develop it internally. Whether institutions that primarily focus on teaching are universities in the real sense is an ongoing debate. One view is that research activities should be separated from teaching activities as that would free up the time of highly skilled researchers. The opposing view is that when the same person who is involved in research and the creation of knowledge also interacts with students, they (the students) receive a much richer content as well as draw inspiration for conducting research in their own right.

Another important function of the higher education sector is to provide upward social mobility for less privileged groups. It is well known that the premium on college education in the labour market is substantial, and maybe increasing despite the massification of higher education. For children of poor households, therefore, college education can be an important stepping stone for upward social mobility. In fact, the public policy goal of expansion of higher education is closely linked to the belief that opening up higher education to the mass will increase social mobility. However, there are two caveats to this. One, it is known that enrolment and success in higher education is closely related to the students’ family background. Even if the institutions are heavily subsidized by the government so that user fees are kept to a minimum, students from well-off families are much more likely to enrol in institutions and successfully complete the programs. Two, social mobility is hampered in countries where the labour market is not well-developed and/or differentiated. Thus, there are developing countries that have increasing number of graduates with higher degrees but the small market cannot absorb many, and the few
openings are filled by individuals from better-off families because of patronage and nepotism.

The increase in social mobility via higher education differs from country to country, primarily as a function of the degree of social stratification and equality of opportunity. When the country has a stable political system in which the current degree of social mobility is taken to be acceptable, promotion of social mobility through higher education may not be an important function. However, when a nation is under stress due to polarization among various groups, its unity and the stability may crucially depend on how effective the higher education system is in meeting the demand for social mobility and cohesion.

The functions that higher education is required to play also reflect the multitude of national and local contexts. Sometimes national pride is a compelling motivation for a state to intervene directly in higher education. In such a situation a national flagship university or a system of universities gets preferential treatment by the government in terms of resource allocation, prestige, and status of academic personnel. However, such an institution could benefit the national economy also. Recently, there has been also some attention to the fact that regional development can be more effectively pursued if innovation clusters are formed between local universities, local government, and local firms to cooperate in their needs for education, research and regional economic development. Based on this, many countries attempt to use provincial (often public) universities as a tool for revitalizing the regional economy in which the universities are located.
Evaluation Criteria

Although there may be substantial differences in higher education systems across countries in terms of their accepted functions and their socio-economic context, the following three criteria are useful in evaluating them and suggesting policy directions in order to improve the system.

**Effectiveness**

Effectiveness is how much any system fulfils its stated mission or functions, without regard to the cost involved. Many observers consider that the most important mission of a system in a democratic society is how well it produces academic and research excellence. As the higher education system plays a key instrument for the accumulation and advancement of knowledge, the system’s ability to generate new knowledge and transmit it to later generations is very important. Private institutions need to be assessed in this respect because they may too much biased towards short-term initiatives. This may also lead many of them to mimic each other with risks of graduate saturation in certain areas of the labour market.

Although knowledge can be transmitted without much cost, advanced standing in science and technology of a particular nation can be of enormous economic benefit to its citizens. The level of excellence is largely determined by the level of research activities rather than the quality of teaching. Although teaching and research are well integrated, research is the more expensive part of the institution’s mission, and more difficult to nurture. This may prevent many private institutions to invest in these areas of activity and to remain essentially as teaching institutions. Although this may be possible for many
institutions, it seems important that a part of the private sector is able to develop some significant research capacity. Otherwise, the sector risks becoming cornered in the low-prestige part of the system.

In order to be a centre of excellence in research, it needs to have superior faculty, good graduate program that attracts top talents from around the world to, and adequate funds. Thus, government regulation should provide significant stimulus for private institutions to develop their own faculty, with recognisable levels of qualification. In an initial phase of development it is understandable that many new private institutions have difficulty in finding their own staff, especially since this tends to occur in a time in which the whole system is expanding, thus creating scarcity of qualified faculty. However, this should quickly give way to a phase of consolidation of the private sector, based on developing their own staff, according to the profile and needs of each institution. Regulatory powers may play a major role in stimulating this behaviour from private institutions.

**Efficiency**

Efficiency is one of the major criteria on which any higher education system should be evaluated. However, efficiency is a misunderstood term because it has several different aspects, and often those (different aspects) are not clearly stated when the term is used. We would like to clarify three separate notions of efficiency that are relevant to education. Production efficiency refers to the condition that the higher education system delivers educational services at the lowest possible cost. The first condition for production efficiency is whether all the factors of production in education are fully utilized. Further,
the level of utilization of faculty and physical resources will depend on the incentive structure of the institution. Secondly, production efficiency is determined by the choice of combination of inputs and whether all its elements are optimally utilized.

The second criterion of efficiency deals with the question whether willing and able education consumers are actually able to receive the education that they desire. If the system does not meet the education demand of the consumers, it is not consumption efficient. Education demand may be quite diverse across individual students with different abilities, aspirations, and family backgrounds. Since centralized education systems tend to be less responsive to diverse educational demands, therefore, they will not be consumption efficient. Decentralized systems have a definite advantage in meeting such diverse demands. In particular, for-profit private education providers may be extremely sensitive to the unmet market demands for special educational needs.

Investment efficiency, the third notion of efficiency, refers to the question whether the benefit of education warrants the cost of providing it. This aspect of efficiency determines whether or not there is too much or too little investment in education. In the discussion of investment efficiency, it is critical to consider the difference between the private and the social return of education. Private return on education is the benefit of education to the individual who received the education, whereas social return on education includes the indirect benefits to other members of the society as well. In almost all cases, private cost of education differs from social cost of education, because the government typically provides subsidy for the latter. In this case, private cost refers to the out-of-pocket cost paid directly by the individual, whereas social cost includes the government subsidy as well.
One can divide investment efficiency into two different aspects. The first is the decision over investment in education versus investment in other productive activities, say, physical capital. If the current return on education investment is greater than the return on physical capital, the investment in education needs to be increased. On the other hand, if the return in education is lower than other productive activities, there is an over-investment in education. The second criterion for investment efficiency deals with the allocation of resources within the education sector, i.e., primary, secondary, higher, and adult education. The investment efficiency within the education sector implies that the returns on education investment in the sub-sectors must be equal to one another. For example, if the return on primary education is greater than the return on higher education, resources must be shifted from the low return higher education to the high return primary education sector in order to achieve the within education sector investment efficiency criterion.

Due to the financial stimulus, private institutions are normally strongly steered towards technical efficiency. The impossibility to rely on public funding is expected to enhance their financial rationality. Their dependence on students’ fees tends to make their highly sensitive to student demand. However, this may create problems of lagged saturation of the labour market, since the information of employment prospects takes time to be absorbed by future cohorts of students and these will only be moving into the labour market a couple of years later. Thus, private institutions may be biased towards short-term demands and underestimate structural trends on the labour market dynamics.
Equity

Equity is another primary concern in an education system. However, as in the case of efficiency, discussion on equity in education is often confused, because of lack of agreement on the meanings of the term. A common notion of equity is that of equal opportunity. As a theoretical construct, this satisfies both conservatives and progressives. However, there may be differences in understanding what constitutes ‘equal opportunity’.

For many countries, another equity concern has been the promotion of access to higher education. The underlying argument for increasing access is that it increases the welfare of under-privileged social groups. However, this argument may be questioned for the following reasons. First, it is well known that public support for higher education typically benefits upper and middle income class students, because the participation rate for higher education by low income students are generally low, even in the developed countries. Therefore, any attempts to increase access tend to benefit the upper and middle class students more than low income students. Second, even if the access were improved for lower income students, their workplace condition and general welfare level may not improve, because they tend to attend low-end institutions such as community colleges and open universities. Also, sudden increase of higher education graduates without any increase in demands for labour for such workers may depress their wages or add to the ranks of the educated unemployed.

The development of the private sector poses some important challenges regarding equity issues. On the one hand, many observers consider that their real-cost tuition fees will constitute a major obstacle to prospective students from lower income backgrounds. Others have nevertheless argued that the expansion of private higher education has created
opportunities to those students, especially in those countries where the public sector retained a strong elitist flavour. In these cases, the highly contested places in the public institutions tend to be overwhelmingly occupied by students coming from families with high cultural capital, because empirical evidence has persistently pointed out towards a strong correlation between cultural capital and academic achievement. Hence, although private institutions are costlier, at least they may become a more feasible alternative from an academic point of view.

There are a variety of ways to promote access. The government may subsidize the operation of the higher education institutions. However, by itself that does not improve the equity goal. In order to provide cash subsidy, the state should be able to select and verify the income levels of the students, and then provide the service at a subsidized price in a targeted fashion. The emergence of the private sector also requires greater attention from government on this front, namely if the situation described above holds. If private institutions are becoming an instrument of some disadvantaged groups to enrol in higher education, then the government should also consider the possibilities of these students to benefit from public mechanisms of support.
The Current Public-Private Mix in Higher Education – Key Policy Issues and Challenges

The rapid increase in higher education, especially the private sector, and its growing complexity has created many policy challenges, as in most countries this was largely unplanned and unanticipated by governments and regulatory bodies. Further complications have arisen because of the growing trans-nationalization in higher education, particularly in the private sectors. We now examine some crosscutting policy issues, the main trends of policy instruments used by governments, and the expected impacts they may have on public and private institutions.

Funding

One of the major issues in higher education policy and on the role of the private sector is that of funding. As the costs of higher education increase rapidly, a key issue is how it is funded. There are several reasons for the rapid increase in the cost. Massification has raised the number of college students. At the same time, the expenditure per student has been increasing much faster than the inflation rate and the overall productivity change in the economy, as higher education is very labour intensive and it is difficult to increase productivity in such an industry. Therefore, the cost of higher education rises faster than the cost of other goods and services. Expectations about the quality of learning have also grown, which adds to the expenditures of higher education institutions. As a result the fiscal burden of higher education has been increasing for governments. However, because of financial limitations, many governments find it difficult to meet the demand for
expanding welfare programs, and are reluctant or unwilling to spend more public resources on higher education.

The rising cost and shrinking public resources force many public universities to seek private funding including profit-making activities, while many private universities seek public funding or subsidy. Therefore, the distinction between public and private higher education institution only by legal ownership is becoming tenuous. Further, as the quality of higher education deteriorates in the midst of rising demand, opportunities for for-profit higher education operations have been expanding throughout the world.

Even in systems where private institutions are not supposed to be publicly funded, there are voices that at least their students should be entitled to some governmental support. By the same logic that governments have been increasingly asking students enrolled in public institutions to contribute to the overall costs through cost-sharing, it could be argued that public support be extended to some activities of private institutions. Further, if it is accepted that higher education produces both social and private benefits then by definition private higher education also produces public goods. One dimension that clearly has social benefits is the research conducted by private institutions.

Another critical issue is that of access and equity. The fairness of restricting student support to those enrolled in private institutions has been questioned, especially in countries where private institutions enrol a significant number of students because publicly-funded institutions are clearly insufficient to meet the demand. Issues of funding become even more complex where public-private partnerships have developed, as in South Africa. Although still negligible, their (likely) development will further blur the boundaries
between public and private sectors and further complicate the criteria for the distribution of public money.

Regulation

Another critical issue regarding the recent expansion of private higher education is regulation. All countries have some level of government regulation of the higher education sector, for which there are several grounds. First, when the institutions are supported fully or partially by the government, the government wants to make sure the money is spent according to the goals and missions of public expenditure. Second, students and their parents have an informational disadvantage vis-à-vis the supplier of higher education. When students enter an institution, it is unlikely they know beforehand about their educational experience. Also, on completion, if not satisfied with the education received, it is virtually impossible for students to reclaim their expenses. Therefore, in order to reduce negative social impact due to asymmetry of information, the government needs to regulate institutions. Third, in the current knowledge economies, governments realize the critical importance of the availability of a competent and highly trained pool of human resource and the social capital for development: Thus regulation is also necessitated by the requirements of the development agenda.

However, it seems that most governments regulate institutions much more than other industries, clearly beyond the rationale of imperfect information. The reasons for that tendency of over-regulation are usually not economic, but political and historical. Government regulations inevitably create winners and losers. Also, the competition to meet the regulation is likely to create wasteful rent-seeking activities, and such rent-seeking
activities provide a natural breeding ground for corruption unless there exists a well-functioning governance structure. Moreover, in the complex scenario of a rapidly expanding and diversifying higher education sector, government intervention through regulation is limited, because they tend to be reactive than proactive to the changes in economic and social environment. The relevant policy question is not how much government intervention is adequate but what can governments do and how to do it in the best way (Jongbloed 2004: 131).

Even in cases where there are differences in the regulation of public and private institutions, Ministries play an important role in the authorization and control of private institution, allowing public universities a fairly autonomous status like in Mexico and Uruguay. Governments, and sometimes, public universities use legal systems as an instrument of coercive isomorphism (Zucker 1987), posing deliberate pressure on the private institutions to conform to a model considered as legitimate (Levy 1999). In extreme cases, the state may dictate the types of institution specifically through its regulatory mechanism. For example, the state may decide a set of categories, and designate each institution to one of the categories making the change between categories require specific government permission. In the other extreme, the differentiation between the types of institutions can be left to the market, so that each institution can seek for a specific category depending on its location, tradition, brand image, resources, and market opportunities.

A critical issue in the regulation of private higher education is the rapid emergence a for-profit sector. This has led to debates about competition, markets, fairness, and also to calls for a stronger and more attentive regulatory framework (Kinser & Levy 2005). This for-profit dimension of private higher education, combined with trans-national activities,
raises complex regulatory issues. Because they are difficult to handle and do not fit into the traditional categories, even of private higher education, the for-profit sector has been largely overlooked by regulators. In fact, some of the most critical voices towards these for-profit institutions come from the not-for-profit private sector. This is unsurprising, since the latter are often most affected in the competition for students and faculty by these for-profit institutions. Further, the for-profit institutions depart more significantly from traditional academic stereotypes, whereas previous generations of (not-for-profit) private institutions had often mimicked their public counterparts in terms of academic organization, types of programs, and governance structures.

The for-profit dimension in higher education goes beyond that of the formally for-profit institutions. In many countries although private institutions are formally not for-profit, their behaviour has often a clear for-profit orientation. This is even more likely in countries that outlaw the existence of for-profit institutions. The for-profit aspect is also becoming relevant for public institutions, due to the increasing pervasiveness of the ‘managerial’ approach and commercialism. The growing adoption by public institutions of private-like managerial practices has led many of them to explore activities that would fit more clearly into the mission statement of a business or a private company (e.g. providing paid consultancy services to external contractors). A further challenge has arisen because of internationalisation of higher education. Private universities from developed countries moved rapidly in the global market, offering programs, establishing partnerships with local institutions, or via distance education. The international arena has been an attractive new market for the for-profit institutions (Levy 2002a).
Quality and Accreditation

Quality has been one of the issues that has received greater attention with the massive development of private higher education, thus becoming a major concern of the state, students, parents, and the public in general. In the face of public subventions and limited finances, growing enrolments, and inadequate or deteriorating physical infrastructure, as in many developing countries, the quality and standards of many private institutions came into question. Indicators such as dropouts, repetition and failure, and employment of graduates, are used to support this perception. Most criticisms concentrate on the recent growth of private universities and institutions in developing and transition countries. A major problem is the inability of many private universities to provide high quality faculty and their over-dependence on temporary or less qualified faculty. Not only is there the problem of good quality faculty, there also is shortages in sheer numbers, which increases the ratio of faculty to students and dilutes quality. Other problems related to quality, includes balancing access and equity, lack of infrastructure (buildings, libraries, laboratories, and equipment), lack of innovation and diversity in programs and curricula, and dependence on traditional models of teaching, learning, and assessment. Moreover, these institutions largely cater undergraduate programs, which are relatively low cost, and designed to serve the short term needs of the labour market.

However, a number of the old private universities in Latin America, East Asia, and the Arab World have been able to provide high quality education, which is largely related to their being non-profit institutions (Altbach 1999). This enables them to attract financial contributions from alumni and business communities, and invest most of their resources in improving the quality of education rather than sharing profits between shareholders.
Because of concerns about quality of many private institutions, governments have implemented evaluation and accreditation mechanisms. Accreditation has a long tradition in the US as an instrument of self-regulation by universities and colleges rather than a mechanism of government control. Accreditation is now flourishing around the world. By 2005, more than 100 countries had adopted evaluation and accreditation procedures for institutions and programs (Brunner 2005). In Europe and Latin America, accreditation is fundamentally a governmental endeavour, however, usually implemented through a specialized autonomous agency. In some countries accreditation agencies and procedures were promoted after private explosion; however, with time public universities were also required to apply for accreditation, developing a common framework for the whole higher education system.

Accreditation mechanisms are growing in complexity and differentiation. A common trend is to have graduated requirements for new private universities, usually with mandatory accreditation processes before they are granted greater autonomy to develop new programs or open new campuses. Some countries have a common set of standards for all institutions and others have different criteria for sectors (public-private) or hierarchy (university and tertiary levels). Internationally, a discernible trend is changing the focus of evaluation processes from inputs to results (Jeliazkova & Westerheijdin 2001). Initially most focused on quality of inputs such as faculty-student ratios or number of faculty holding higher degrees etc, the focus is now shifting to performance indicators and outputs.

Accreditation is a strong incentive for improving quality. Institutional and program evaluation provides information to relevant stakeholders. Accountability of private institutions is mainly through the market, therefore being accredited can be a strong asset to
attract students. There is some evidence that private institutions in countries in Latin America and Eastern and Central Europe are more active in applying for accreditation than their public counterparts. Accredited private institutions are usually granted greater autonomy and, therefore, they usually expand into new programs or locations (Bernasconi 2003). Accreditation mechanisms have also been an important factor in curtailing private proliferation, as in Argentina and elsewhere (Caillon 2005).

Access and Equity

A major issue in any higher education system is that of equity. The remarkable growth in higher education enrolment numbers has not led to equitable access to all. Some scholars have pointed out that the social composition of the student body has become narrower leaving a large number of qualified applicants with no places in universities. These scholars argue that the current pattern of access to higher education may be introducing novel forms of social exclusion, the traditionally underrepresented groups still remaining largely excluded (Sacks 2003, Zusman 2005).

Growing segments of population are demanding postsecondary studies pushing higher education expansion (Altbach 2005). Traditional universities are unable to accommodate the new students and therefore the state is forced to open new public universities, most of the time with lower quality of instruction and research (Cosentino de Cohen 2003). In other cases, where governments were unwilling or unable to create new public institutions, the private sector meets the demand, raising concerns that their higher fees may be pricing out poor secondary graduates.
The main instruments used by governments to promote equitable access have been subsidization of higher education (mostly to public universities) and provision of scholarships and loans for students. However, traditional public policy of financing public institutions has been questioned in the last decades, largely on the argument of perverse distributional effects (Johnstone 2004, Teixeira & Amaral 2001). Since most students entering higher education come from upper income levels, public resources collected from society are a social transfer to the rich. As a result, in recent years, governments pursuing increased access and fairness started to change financial schemes in two directions. In several countries better results are being achieved by lump sum subsidies based on achievement criteria like increased access of low income or minority students, or decreasing drop out rates. At the same time, governments provides funds for research and graduate studies, promoting competition among institutions as an incentive to improve performance in areas with high social returns.

According to economic rationale there is a justification for tuition fees as cost recovery of the private returns of higher education. In terms of equity, problems arise when tuition costs impede poor but qualified students to access higher education, which provides the rationale for subsidies like scholarships, loans or vouchers. Nonetheless, there are important implementation problems for these policies. Impact of cost recovery on access to higher education is a hotly debated policy issue (Barr 2005, Brunner 2005, Jongbloed 2004).

The rise of private higher education around the world has created new problems, but in most cases has highlighted traditional major issues in higher education policy. Although in some countries the rise of the private sector has contributed to exacerbate old
problems such as the ones of quality and equity, in other countries it has contributed to alleviate some significant difficulties as those of access and the financial resources required to the expansion of the system. Thus, it strengthens the view that not only should private higher education be regarded as a major priority in higher education policy agenda, but also that it should be regarded as a part of the system that can be used to help the system to perform better its missions.
Some Guidelines for Policy-Making

Each country may be faced with a very different set of policy issues and the socio-economic and political situations may vary and, therefore, the choices available to policy-makers may be very different. However, there is a set of commonalities in the way that this recent emergence of private higher education may be approached by policy-makers. Below are some general recommendations that may help to build a more effective policy-framework that takes advantage of the private sector in order to fulfil better the missions of higher education.

Private higher education is here to stay as an integral part of the higher education system

The global expansion of higher education should not be regarded as a temporary phenomenon, but rather as an irreversible feature in higher education landscape. The limitations of public fiscal resources to meet the growing demand will not fade away, thus the need to use the private sector will not disappear. In some countries, the growing fiscal demand for ageing society may hinder further expansion of public support for higher education. In other countries, the low level of national income limits the tax base. In any case, it is clear that even the richest countries in the world are not likely to be prepared, or able, to meet the demand for the massification of higher education by public resources only. Therefore, in most countries, private higher education institutions have to play an increasing role in meeting the higher education demand, not only for teaching, but research, and other socio-political functions of the higher education system in the country.
Private higher education should be regarded as an integral part of the system in meeting the challenges of higher education. Much of the social functions of higher education institutions such as research in pure science can be met by private institutions under certain conditions. For example, in the U.S., large institutional endowments and competitive government-supported research programs allow many private institutions effectively deliver a large quantity of high quality research outputs. Although the US private sector’s experience is much less significant in many other systems where the private sector had a slow development, the regulatory system may help in stimulating institutions to develop their research capacity. Public policy should provide incentives for some private institutions to adopt a greater focus on research and postgraduate training.

In several countries, particularly where there is no extensive history of private higher education, the new private institutions are often regulated as a separate system. The rules governing private institutions, e.g., admission criteria, faculty qualifications, and so on, are different from those for public institutions. This is either because of mistrust towards the private sector, leading to the adoption of rules that make their existence more difficult; or due to a lax attitude towards the private sector that helps to create a perception among public opinion that the private sector would not be able to fulfil the same requirements of the public sector.

Such practices produce two-tier systems, in which public sector caters for a specific socio-economic group, and private sector serves a different group, segregated either by social status, ability, or income level. Such a two-tier system often is a result of interest group politics in which the coalition of existing interest groups want to maintain the status quo, both on the public and private sectors. However, such a two-tier system
creates not only dissatisfaction among stakeholders, but the effective development of the system can also be seriously compromised. The development of balanced accreditation and quality evaluation mechanisms may be a critical instrument in this respect.

**Public and private benefits and the funding of higher education**

Higher education serves both private and public functions. For an individual, it is an effective channel for higher income and better quality of life. Private benefits justify private responsibility in funding and the individual freedom to choose the most appropriate educational program. The public or social benefits of higher education justify government funding and its role in regulating the system. However, the government’s right to regulate needs to be carefully balanced with the individual freedom (students as well as private providers). The balance between public and private funding in higher education is a complicated one, depending on political and historical context as well as on economic rationale.

Countries differ greatly in context and functions with regard to their systems, thus, it would be both impossible and undesirable to design a single “right” model of funding and regulation. Nevertheless, there are some generic guidelines for policy choices. In general, the limited public resources should be devoted to furthering the public benefits of higher education, and private resources should be mobilized in order to meet the private benefits. If too much public funding is mobilized, i.e., substantial private benefits gained from public funding, two dangers are likely. First, it is widely known public funding of higher education benefits upper class students more, particularly if the funding is distributed by the providers. Second, with high levels of higher education enrolments,
the reliance on public funding is likely to create a pressure on government finance. Typically, this results in lowering government support per student, which jeopardizes the quality of higher education.

Too much reliance on private funding generates other problems. A system that relies on too heavily on private funding may not adequately contribute to research output and social cohesion, because individuals would be less likely to devote private resources in the generation of public goods. Second, private actors are less likely to address the unequal access to higher education by class.

The balance between public and private cost-benefit perspectives gains new dimensions with the development of the private sector. These tend to rely essentially on real-cost tuition fees, though some may argue that there is some social value in their activity, e.g., in terms of enlarged access to higher education, externalities, or a better qualified labour force. Moreover, the activities of public institutions should not be regarded as only having a social value. They are also extremely advantageous for those individuals that benefit from better education, both in better employability and higher average lifetime income. Thus, policy-makers need to rethink the traditional identification between public institutions and social value and private institutions and individual benefits. This may have important consequences in several dimensions of higher education policy, such as funding mechanisms or student support mechanisms.

**Pursue effectiveness, efficiency, and equity in all aspects of policy making**

Public funding in higher education can be distributed in many different ways. First, it can be distributed through the publicly-owned institutions. The criteria for the
distribution of resources, e.g., the number of enrolment, quality of teaching, or research output, will affect the incentives of the stakeholders. Public funds may be distributed to students rather than providers as a voucher scheme, merit-based scholarships, or need-based grants, or loans. The mechanism of the distribution affects the incentives of decision makers and thereby the performance of the whole system.

Besides funding, there are many other areas that the government may successfully intervene in order to improve the performance of the system. For example, the better rules regarding the way students are admitted and distributed across different institutions and the governance structure of public and private universities may improve the system performance. Needless to say, these different areas are inter-connected and policy changes in one area affects not only the directly regulated area but the other related areas. Any change in government policy is bound to create changes in the system as a whole. Therefore, it is important to consider the system-wide effects of changes in any subset of the system. For example, the improvement in equity in admission policy may generate inefficiency in distributing the public resources. Whatever mechanism that the government uses, it is recommended that it should pursue the goal of increasing the performance of the system by using the criteria of effectiveness, efficiency, and equity.

By taking private higher education as an integral part of the higher education system, policy-makers may be able improve the performance of the whole higher education system compared to the situation in which the private higher education system is treated as the residual one. For instance, that would require a careful regulation of private supply of programs, in order to stimulate private institutions to respond not only to short-term demands, but also to structural labour market trends. The government
should not heavily restrict the autonomy and responsiveness of private institutions in order to protect the existing public institutions, but rather try to enhance the efficiency of the whole higher education system. Likewise, the private sector can and should be regarded as a powerful instrument to improve access and equity in the system. The experience of many countries has shown that it does not need to be a mere elitist alternative to a massified public sector. Private higher education institutions can be an important tool to improve access without creating major additional fiscal burden of the government.

**Be careful about possible unintended consequences**

Sometimes, it is inevitable to make a substantial shift in higher education policies. However, in designing and implementing new public policies, it is easy to overlook possible unintended consequences. As usually happens, policies are politically motivated and designed by a central bureaucracy, which does not possess enough knowledge about the incentives of the key players in the system nor has the analytical capability of predicting key side-effects. Therefore, there are chances of the new policies creating substantial harmful side effects.

Governments need to think about the long-term consequences of the proposed policy as well as the short-term gains. Education is by definition a long-term venture, as the number of years to finish formal education extends over a long span. For example, the introduction of universal secondary education when the tuition for higher education is zero will inevitably create an explosion of higher education demand several years later, and the fiscal burden of the government will increase.
Governments need to be concerned about responses of stakeholders when a new policy is introduced. Consultations with stakeholders usually have positive effects as it generates ownership. Negative collective responses may be minimized, if the process of policy making incorporates major concerns of the interest groups. When sacrifice is required of some social groups, the rationale of the government policy should be explained to them. Individual response to the policy may be more difficult to prevent, because individual incentives may not be compatible with the policy directions. In such cases, the government needs to assess whether the policy hurts the interests of the majority of stakeholders. Also, the government needs to be willing to provide enough resources to enforce the policy when the individuals violate the policy.
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