Higher Education in 'Trishanku'

Hanging between State and Market

The higher education systems in many countries today are at the crossroads. There is a gradual shift from education being a state responsibility to its privatisation. Many consider the public sector to be inefficient in the field of education and correspondingly the private sector as efficient and therefore desirable. Nevertheless, the case for public provisioning of education remains strong. It is imperative for the state to play a dominant role in this field.

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> … embedded in the very idea of the university – not the storybook idea, but the university at its truest and best – are values that the market does not honour: the belief in a community of scholars and not a confederacy of self-seekers; in the idea of openness and not ownership; in the professor as a pursuer of truth and not an entrepreneur; in the student as an acolyte whose preferences are to be formed, not a consumer whose preferences are to be satisfied.
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> – Kirp (2003, p 7).

The value of higher education was recognised in traditional societies perhaps much more than in modern societies. Though no attempts were made to identify and quantify the benefits of education, the value of education was rarely questioned. Education and knowledge were viewed as great wealth in themselves, besides being sources of an increase in wealth. It seems that even the existence of externalities was acknowledged in traditional societies, both in the ancient and modern periods. Accordingly, societies invested resources in education voluntarily and gladly, and many a time without expecting any direct economic return. Even in modern societies for a long time, say, until the advent of the 1970s, it had been so. It was held that the benefits of education were vast and widespread, and in the long run, government investments made in education could be recovered by society through the increased productivity of the labour force and through consequent higher tax receipts by the government, and hence there was no need for any specific measures directly to recover the investments made in education from students or from any non-governmental sources. As Mishan (1969) observed, "[higher] education is an investment and will pay for itself; and will increase the earnings of the beneficiary students and the government will recover its costs through consequent higher tax receipts".

The immediate post-war period in Europe and the post-independence period in developing countries was dominated by a welfare state philosophy and a philosophy of social democratic consensus. It was strongly felt that government could do almost everything for everybody. Following John Maynard Keynes, the power of the state was recognised – planning, provision, financing and other interventions by the state were favoured and an extension of the traditional functions of the state was promoted. Education had been one important sector in which the role of the state had been recognised widely. The importance of public education was highlighted earlier in classical political economy also. As Vaizey (1962, p 23) observed, "there is a long and honourable tradition from Adam Smith to Alfred Marshall which assigns to publicly supported education a major role not only in promoting social peace and harmony, and self-improvement, but in the process of wealth-creation itself". Accordingly, a gold standard tradition was established, characterised by state provision and financing of education.

The advent of the 1970s heralded a continuing financial crisis in education. The crisis was characterised by high rates of inflation, shrinking public budgets for education along with increasing student numbers, declining per student expenditures, extremely inadequate investment in the quality of education, severe distortions in inter-sectoral and intra-sectoral allocation of resources, widening of inter-country and intra-country inequalities in expenditure on education, etc. Since the beginning of the 1980s, modern neo-liberal economic reform policies have been unveiled in several developing countries in the form of stabilisation and adjustment reform programmes, associated with the International Monetary Fund and the World Bank. The economic reform policies of the Bretton Wood institutions and privatisation are rightly felt to be synonymous by many. Rather privatisation or a movement towards privatisation has become the most significant agenda of the Bank [Richardson and Haralz 1995]. The underlying philosophy of these policies is that any aspect related to the public sector is inefficient, and any aspect related to the private sector is, ipso facto, efficient and desirable. All this led to the eclipse of Keynesianism in the mid-1970s, and gradually and reluctantly paved the way for the entry of market principles. The concept of free market used in modern economics until the end of 1970s or early 1980s was probably consistent with an appropriate role of the government to take care of market failures. This was the basis of welfare economics. But the 1980s and 1990s brought about a complete swing of the pendulum in which social democratic values and welfare state concerns were replaced by the free market philosophy that stresses individual economic values and gains. Individual freedom and choice are preferred to social (or public) choice. According to the somewhat extreme form of free market philosophy [à la Hayek 1944], there is no meaning to 'social good' and 'social welfare'; there is no such thing as society or value to society that is inseparable from individual gains. Only individuals are real, and their gains are crucially important and individual freedom is more important than even democratic values. Public good and social justice are viewed as impossible and even as not necessarily desirable.

The shift in development paradigm is taking place all over. Many countries, particularly developing countries are in transition. The transition is from a development paradigm that was predominantly based on Keynesianism to a 'neo-liberal' paradigm. Markets, more clearly the private sector, now holds the centre stage. It is argued increasingly nowadays that it is not the government, but the market that can do everything for everybody.

This philosophy entered the education sector as well, more strongly the higher education sector. Correspondingly, a reduced role of the state in education, more explicitly higher education, is promoted as an economically and educationally efficient proposal and it is argued that the role of the government should be confined broadly to the formulation of a coherent policy framework [e g, World Bank 1994]. The creeping in of a market philosophy into education, which is much more ingrained in the American psyche, has come as something of a culture shock not only to most people in developing countries, but also to several European countries, including the UK [Bottery 1992, p 83] and has resulted in several kinds of tensions and conflicts. Privatisation is being pursued in higher education as a very effective measure of improving efficiency and as an important measure of easing financial crisis.

Thus, today we notice that higher education systems in many countries – developing as well as developed – are at the crossroads. Traditionally higher education is viewed as one that creates and diffuses knowledge. Rather expansion of frontiers of knowledge is regarded as the most important function of education. Many societies assigned high value to knowledge for the sake of knowledge, as knowledge was considered wealth. Secondly, higher education was viewed as an instrument of personal development of individuals, expanding intellectual horizons of the individuals, their interests and potential and empowering the individuals to have better quality of life, as contemporary sociologists and psychologists argue. Thirdly, higher education was viewed as an instrument of social engineering, socialising individuals to the values of the society – social, ethical, cultural and political, so that societies become more virtuous with more and more people who have had access to higher education (a la sociologists like Durkheim). Lastly, the human capital theorists placed emphasis on the role of education in transformation of human beings into human capital, an instrument of production and economic growth and thereby economic well-being of the people and societies (a la Theodore Schultz and Gary Becker). Many institutions of higher education in the contemporary period aimed at serving all these functions. Thus, it is long held that higher education institutions have social functions; they possess important social, cultural as well as economic roles; they provide public service, they are different from commercial and business organisations, they produce human capital, and even specialised human capital; and that their output is not necessarily tangible, and above all, they are not for profit institutions

Now with the unveiling of the economic reform policies, the role of higher education is being reinterpreted and redefined. The market-promoting policies everywhere pose serious challenges to higher education. New values, policies and practices replaced traditional and well-established values, concepts and approaches. Social democratic visions are being replaced by market-driven policies. 'Marketisation' has become the buzzword. The role of the government is being 'reinvented'. Their traditional functions of production and dissemination of knowledge are under attack. Public subsidisation of higher education is being increasingly criticised. Equity in higher education is no more cared for. The modern economic policies, or simply called the market reforms that aim at making higher education institutions responsive to market forces do not distinguish between education and any commercial product.

This paper presents an analytical account of some of the prominent emerging trends in higher education, and describes how higher education is moving from state to market, and the costs involved therein.

State versus Markets in Higher Education[1]

Generally education is publicly provided by every nation. Dominance of the state subsidies is an outstanding feature of most education systems. Such a unique position is shared only by a very limited range of goods and services such as national defence, internal security, courts, police, etc. Even in those cases, where education is not publicly provided, it is subsidised by the state. Education, including higher education, is heavily subsidised by the state in almost all the countries of the world – not only in developing countries, but also in developed countries. Conventionally why has education been given such a treatment? There seems to exist a powerful persuasive economic logic and a social, political and historical rationale for this.

Case for Role of State in Higher Education

There are several arguments in the literature that justify the role of the state in higher education: education is a public good; and higher education at least a quasi-public good, producing a wide variety and huge magnitude of externalities. Consumers of education confer external benefits on those not acquiring education. The social benefits of having a large population which has had access to higher education go beyond the increase in GNP. It is also argued that social benefits of education cannot be reduced to individual self-interest. Hence by taxing those who receive these benefits and subsidising the provision of education, the welfare of both groups, and thereby the society as a whole, can be improved. The externalities include improvement in health, reduction in population growth, reduction in poverty, improvement in income distribution, reduction in crime, rapid adoption of new technologies, strengthening of democracy, ensuring of civil liberties, etc, and even dynamic externalities [Schultz 1988; Romer 1986, 1990; Lucas 1988] and 'technological' externalities [Behrman 1990], which are necessary for technical progress and economic growth and to arrest diminishing marginal returns. These positive externalities constitute a powerful justification for the state to play a crucial role in education [Nerlove 1972]. The externalities or the 'uncompensated' benefits from education are regarded to be legion. Further, when democracy, reduction of crime, economic growth, redistribution of resources, etc, are viewed as other public goods, it is important to note that education helps in their fulfilment.

A similar aspect is that education is also a 'merit good' [Musgrave 1959]. It is a merit good, consumption of which needs to be promoted. People could be ignorant of the benefits of education, or may not be appreciative of value of education, or may not be able to foresee the implications of their investment decisions in education, and may be unwilling to invest in education. But governments are expected to have better information than individuals or families, and should be wiser and more able to look into the future and accordingly take wise decisions regarding investment in education. The important aspect is that not the others, but the individual recipient himself/herself benefits to a greater extent than he/she is aware of. For instance, the effect of education on wages may be known, but the likely impact on productivity in general, on family health and nutrition, ability to make decisions regarding oneself, or about his/her family members relating to education, employment, etc, is less likely to be anticipated and understood. In other words, it is highly implausible to argue that individuals can be represented as economic agents who can be relied on, to make choices that are in all cases rational; or that they are infinitely clear headed about how to go about realising their goals, and that they are capable of foreseeing all of the consequences of their actions, and can discover which is the best strategy to service their chosen ends. It is widely held that governments would be wiser than the individuals in understanding the implications of investing in education. Consumer ignorance is a typical case that necessitates public subsidisation.

Thirdly, state provision of higher education is advocated on the grounds of providing equality of opportunity. Ensuring equality of opportunity in education to every one irrespective of not only social, racial, and cultural background, but also economic background is considered an important function of the modern state. It is held for a long time and by many that "it is necessary to provide free education at all levels and also to subsidise students' living expenses in post-secondary schooling so as to guarantee 'equality of educational opportunity'" [Blaug and Woodhall 1979, p 352]. Education is found to be an effective instrument of equity. In the absence of state subsidies, only those who could afford to pay would enrol in schools. The concern for equality of opportunity has led to almost universal agreement that the government should subsidise education.

A strong argument accepted by many in support of state funding of higher education is the existence of imperfections in capital markets. As Arrow (1993) observed, imperfections in capital markets and asymmetric information are possible justifications for the public subsidisation of higher education. In several developing countries markets are 'incomplete' and credible markets do not exist (Joseph Stiglitz). Education credit markets are also incomplete [Kodde and Ritzen 1985]. Imperfect capital markets inhibit students from borrowing against the uncertain future returns of higher education. Problems of offering human capital as collateral, lead to under-investment in education, especially among the poor families. People may not prefer to borrow to invest in education, the gestation period of which is relatively very long, and may not be ready to take risk of investing in education, the benefits of which are not certain. Risk associated with human capital investments could be difficult to diversify and could be very high to the society. For the individual, the risk of not completing a given level of education, or facing the risk of falling market value of his/her education are indeed high. Even more importantly, the lenders would be understandably reluctant to accept risk backed only by uncertain future incomes of the reluctant debtors [Arrow 1993]. Hence the need for state subsidies.

Fifthly, education is a sector, which is subject to economies of scale, or increasing returns to scale. Average costs of providing education declines as enrolments increase. If a production process is characterised with decreasing average cost condition, it may be more efficient for government to operate this process. Further, higher levels of education can be particularly subject to this phenomenon. University systems, scientific equipment, libraries, etc, cannot be used on a small scale. Hence it may be more efficient for government to provide it [Colclough 1996]. So government monopoly of education, including higher education, is viewed desirable, compared to allowing many providers in the field.

Arguments Against Role of the State

Of late several questions are being raised on the rationale of state subsidies in general and subsidisation of education in particular, and within education, more particularly higher education. The several arguments against public subsidisation of education are essentially of three kinds: efficiency arguments, equity arguments, and pragmatic considerations.

First, much opposition to public subsidisation of education, particularly higher education, has emerged from estimates of rates of return to education. The social rates of return are found to be consistently lower than private rates of return to education, and hence it was recommended that public subsidies could be reduced, and individuals could be asked to pay for their education [Psacharopoulos 1994; World Bank 1994].

Secondly, it is argued that public subsidisation of education produces perverse effects on distribution. It is argued that, public subsidisation of education, especially higher education, would be regressive, increasing income inequalities by transferring the resources from the poor to the rich, as the education (particularly, but not exclusively higher education) subsidies accrue more to the rich than to the poor [Psacharopoulos 1977; Jimenez 1987; World Bank 2000, p 80]. Reduction in education subsidies in general is also advocated arguing that education subsidies could be targeted to the poor only [World Bank 1994].

Thirdly, governments in developing countries are increasingly facing a resource crunch. Economic reform policies adopted in many developing countries, including stabilisation and structural adjustment policies also necessitate cuts in public expenditures across the board. Education is viewed as one sector, where state can withdraw rather relatively easily.

There are also several other arguments. Public subsidisation is not needed to promote equity or to promote democracy [Tooley 2000]. It is also contended that with heavy subsidisation by the state, education institutions become vulnerable to government control; it is inefficient to give subsidies (in the form of grants to institutions) since it offers no incentives to allocate the resources efficiently; it may not be desirable to subsidise higher education, while basic needs such as basic education and health care are not adequately funded; in other words, public resources get misallocated, etc.

It is also felt that reduction in the role of the state and in state subsidies would not adversely affect the growth of higher education, as cost recovery measures can be adopted. Since education, particularly higher education may not be price-elastic, it is believed that cost recovery measures would not lead to any significant fall in enrolments; on the other hand, cost recovery measures would improve access, and also would lead to improvement in quality of education by reducing the baby-sitting role of education on the one hand, and making students more diligent about studies on the other. Given the high private rates of return, people will be willing to pay for education.

Assessment of Arguments

The debate between the two sides, state versus markets, or familiarly known as liberal versus neo-liberal groups, is intensifying in the recent years. How far are the arguments and counter arguments valid? It may be noted that all arguments against the role of the state cannot necessarily be considered as those in favour of markets in higher education. Secondly, some of the arguments against the role of the state assume that the level of efficiency of the state sector is given and there is no scope for improvement in the same, which is not true. While it may be possible to marshal enough evidence to argue on either side, there are some aspects that stand out very clearly in favour of a dominant role of the state in higher education, which are rarely questioned. For example, even those who oppose pubic subsidisation of higher education recognise that it produces large externalities.[2] Even Friedman (1962, p 86) implicitly agreed that because of externalities the associated with education it should be publicly financed. Though all the social benefits cannot be identified and measured accurately, there is still a consensus that they are substantial. The other aspects widely shared are: education as a public good (and quasi-public good in case of higher education) merit good nature, education as social investment, market imperfections, and economies of scale. Further, many arguments made against public subsidisation do not have unqualified support either from theory or empirical evidence. Based on sound economic reasoning, Vaizey (1962, p 34) concluded, "publicly financed education is a legitimate end of public activity, even to extreme exponents of 'classical' economic doctrine" (p 34).

The case against public subsidies in education in the recent years is based on the premise that governments in developing countries do not have adequate resources at their disposal, and that the scope for restructuring the public budgets, and thereby increasing the subsidies substantially to education is rather limited. This is not an argument per se against public subsidisation or in favour of markets. Except quoting the figures relating to budget deficits, or those relating to external indebtedness, and the corresponding debt service charges of the developing countries, this premise has rarely been critically examined. Arguments are made for restructuring public budgets by withdrawing resources from unproductive sectors and their reallocation towards education [e g, UNDP 1991, 1992]. Some research also exists that shows that education expenditures are affected by military expenditures, indicating a clear trade-off between public expenditures on defence and education. Patterns of public expenditures in developing countries also show that the governments are not as much starved of resources as of lack of priorities and political will, especially in case of sectors like education.

There is a general argument that higher education subsidies are regressive. It is also stated, that subsidies to higher education accrue to the better-off sections of the society, while those to primary education accrue to the masses. It is argued that public subsidisation of education produces perverse effects on distribution [Psacharopoulos 1977], a finding that was proved wrong by Ram (1982). Ram has concluded in a cross-country analysis, "there is little evidence in favour of the postulate of a significant disequalising effect of public subsidy to higher education. If there is such an effect at all, it appears to be stronger in the DCs than in the LDCs" (developed countries than in less developed countries) (pp 45-46). Torstel (1996) further showed that public subsidisation of education would even correct distortions in taxation and hence it is efficient to subsidise education. In a careful review of several studies, and after standardising their results, Leslie and Brinkman (1988, p 118) found that "higher education in most cases does contribute to progressivity and moreover that when the analytical methods employed are most advanced, progressivity is found without exception". It is also widely shared that any withdrawal of public subsidies would certainly make the system worse, more regressive. Further, it is also noted that markets are cumulatively and inherently inegalitarian in relation to the distribution of resources in society. As Johnson (1984) demonstrates, it may be justified to tax the poor to finance higher education of even the rich, because of the externalities associated with higher education (of the rich), which can be relatively rich in a permanent income sense. The poor (or less able) also realise a portion of the gains from the rich (or more able) receiving higher education.

It is also recognised that state subsidies need not necessarily be regressive per se. It depends upon the nature, type and kind of subsidies. For instance, if subsidies that are expected to be universally available to all are targeted, or vice versa, it may produce adverse effects. The type of subsidies, e g, grants to institutions versus grants to students, may also matter in this context. It is also felt that the solution to regressive effects of subsidies lies in progressive taxation system, rather than in eliminating or reducing subsidies.

The use of the estimates on rates of return to education in support of arguments against public subsidies is also found to be not proper. First, the high levels of private rates of return may not even sustain themselves for long, as already experienced by some countries, reducing the students' willingness to pay. Secondly, private rates of return will decline if public subsidies are drastically reduced or altogether withdrawn, making investment in education unattractive from individual point of view. Thirdly and more importantly, it is now well noted that the social rates of return to education are not true social returns: except for tax benefits, no other social benefits are considered in the estimation of social rates of return to education. Hence, it is contended that rates of return cannot be used to argue against public subsidies [e g, see Task Force on Higher Education and Society 2000, p 39] or even for any sound public policy on education [Majumdar 1983]. Further, properly estimated social returns could be much higher than not only the earlier estimates on social rates of return, but also higher than the private rates of return [see, e g, McMahon 1999; also Weale 1992, 1993].

There are also a few who feel that education may not qualify to become a public good, as the criteria of 'non-exclusion' and the 'free-rider' do not apply. It is mentioned that one's admission to a school may mean denial to somebody else, as the number of places in schools could be restricted [Eicher and Chevaillier 1993, p 478]. What is important, is to check the applicability of the criteria of non-exclusion and free rider not to consumption of the service (admission in school), but to receipt of the benefits of education. After all, people who have not gone to schools cannot be excluded from getting benefits of having educated population in the neighbourhood.

Lastly, it has to be noted that many of those who argue for increased cost recovery in higher education do not oppose public subsidisation per se; on the other hand, since there is "limited scope for increased public spending", it is argued that additional resources can be mobilised through a variety of measures. They also recognise that public subsidies can increase efficiency [e g, Arrow 1993]. Hence the real need is to raise resources by the state through tax and non-tax revenues.

As Blaug (1983, p 126) summed up long ago, market failures – consumer ignorance, technical economies of scale, externalities in production and in consumption, public good, and inherent imperfections in capital and insurance markets – inhibit the attainment of Pareto optimality in education investments. In case of higher education, Blaug agrees that of the above, externalities and imperfections in capital and insurance markets are relevant. Hence the government has to subsidise education. Governments subsidise education, not just for efficiency, but also for reasons of equity, and various other social and political objectives. Hence, as Eicher and Chevaillier [1993, p 480] observed, even if theoretical justification is weak, "it would probably be a mistake to curtail sharply public subsidies to education". To conclude, there is not much disagreement on the rationale of the role of the state and state funding of higher education. As Vaizey (1962, p 36) observed, "the opposition to a publicly-financed system is a political opposition to paying taxes rather than an attitude ineluctably derived from the mainstream of economic reasoning".

Current Trends towards Marketisation

Despite the abundant knowledge on the importance of the role of the state, higher education systems are in transition. The economic reform policies introduced in almost all developing countries during the last quarter of the century, required (a) a drastic cut in public expenditures across the board, including higher education, and (b) promotion of markets in higher education. In fact, these policies set the tone for drastic reforms in higher education; and on the whole, higher education suffered severely. Public expenditure on higher education declined in many developing countries – in terms of relative priorities (proportion of GNP or of total government expenditure that is allocated to higher education), and/or in public expenditure on higher education in absolute terms in real prices (and sometimes even in nominal prices) – total as well as per student. Noticeable cuts could also be noted in several countries, specifically in public expenditure on quality and equity related inputs in higher education (e g, research, and scholarships). Recovery of costs of higher education from the students (in the form of high and even full cost-equivalent fees) has been an important strategy adopted in most countries, along with raising of resources from other non-governmental sources including industry, by forging close university-industry links.

Along with these and the public apathy for higher education, one can note a strong emergence of forces in favour of private higher education. The lack of resources is one oft-cited reason for the growth of private higher education. But an equally important reason is the change in attitudes towards higher education, and towards private higher education, and towards 'for-profit' private institutions of higher education, in particular. The public and merit good nature of higher education is being increasingly discounted. Private higher education is projected as an efficient system that can improve access and quality as well as equity!

Governments have either implicitly encouraged higher education institutions to adopt market relevant policies, or explicitly formulated policies that contribute to rapid privatisation of higher education. Such policies include withdrawal of government grants and incentives to mobilise financial resources from non-governmental sources, including fees and others, introduction of 'marketable' courses of study that can be 'sold' to the students in place of long-term courses of study, appointment of industrialists as heads and/ or chairpersons of governing bodies of higher education institutions. Management, financial management including cost recovery and profit/surplus-making, have become the traits that are looked for in such appointments. The march towards marketisation of higher education is taking place through a variety of measures: financial privatisation of public universities, transfer of ownership of public institutions and establishment of private institutions – private institutions with government support, self-financing private institutions (with no government support), and profit-making private institutions – all focusing on short-term market considerations and immediate market relevance. The emerging private institutions also consist more of institutions without government recognition. Universities also began to transform themselves into 'entrepreneurial universities' and autonomy from the government has also become a buzzword. The purpose of the universities, their ownership, sources of revenue, norms of management, and the role of the government in university development have been changing very fast. The changes are not confined to newly established institutions, but even the universities established several decades, if not centuries ago are affected by these changes, and there is a steady march from publicness to high privateness in higher education. As Johnstone (1999) described, the progress towards 'high privateness' in higher education (shown in Table 1) is very fast.

The emerging scenario depicts varying degrees of privatisation of higher education [Tilak 1991]. First, an 'extreme' version of privatisation implying total privatisation of higher education, colleges and universities being managed and funded by the private sector, with little

Table 2: Emerging Trends in Policy, Planning and Financing of Higher Education

Conventional system	Emerging system
Welfare approach	Market approach
Public higher education	Mixed and private higher education
Public financing	Private financing
Private: state-financed institutions	Private: self-financing institutions
Private: government recognised institutions	Private institutions requiring no government recognition
Private: degree awarding institutions	Private: non-degree (diploma/ certificate) awarding institutions
Private: philanthropy and educational considerations	Private: commercial motives; profit motives
No fees	Introduction of fees
Low levels of fees	High levels of fees
No student loans	Introduction of student loan programmes
Commercially ineffective loan programmes – no security	Effective/commercially viable loan programmes: security/mortgage
High default rates	expected high recovery rates
but based on criteria of educational qualifications and economic needs	Based more on commercial considerations
Scholarly/academic disciplines of study	Self-financing/commercially viable/profitable disciplines of study
Emphasis on formal/full-time education	Open/distance/part-time education
Selection criteria for heads of institutions: academic background	Selection criteria for heads of institutions: expertise in financial/ money management; and in resource generation

Source: Tilak (1999).

Table 3: Conflicting Interests of the State and Markets in Higher Education

	State	Market
Motivation	Service	Profit
Main concern	Knowledge	Skills
Area of interests	Generic	Specific
Duration of interest	Long-term	Short-term
Team effort	Rarely	Always
Research	Publish/public good	Strict confidential/private good
Time schedule	Flexible	Rigid
Nature of universities	Diversity	Uniformity

Table 1: Trends towards Private Higher Education

Dimension	High Public ¬ (Traditional)			® High Private (Modern)
Mission/ Purpose	Serves as a clear public mission as determined by the state/faculty	Mission avowedly both public and private	Mainly to respond to students' private interests	Mission serves private interests of students, clients, and owners
Ownership	Publicly owned	Public corporation or constitutional entity	Private non-profit; clear public accountability	Private for profit
Sources of Revenue	Public/taxpayers	Mainly public, but some tuition or cost sharing	Mainly private, but some public assistance (to needy students)	All private, mainly tuition
Control by Government	High state control	Some control by the state	High degree of autonomy; state control limited to overseeing	Almost no control by the state
Norms of Management	Academic norms, shared governance, anti-authoritarianism	Academic norms, but acceptance of need for effective management	Limited adherence to academic norms, high management control	Operated like business, norms from business management

Source: Johnstone (1999).

government intervention. Second, there is 'strong' degree of privatisation, which means recovery of full costs of public higher education from users – students, their employers or both. Third, there is a moderate form of privatisation implying public provision of higher education but with a reasonable level of financing from non-governmental sources. Lastly, there is what can be termed 'pseudo-privatisation', which cannot be really called privatisation; institutions offering higher education under this category are privately managed but government-aided. They were originally created by private bodies, but receive nearly the whole of their expenditure from governments. All types and forms of privatisation seem to take place rapidly in many developing countries without any coherent perspective and plan, producing different kinds of problems.

On the whole, one can summarise the emerging trends and changing public policies in higher education in many developing countries that are in transition, in the form of a table (Table 2). These trends are not exhaustive; they are only indicative. The features listed under the two categories, viz, 'conventional system' and 'emerging system' include some of the changes that have already taken place in some countries, those that are slowly taking place in some other countries, and those that are taking place very fast in a few others. However, neither of the two systems is final in any sense.

Entrepreneurial Universities

In short, the emerging higher education system can be summed up as a transformation of academic institutions into "entrepreneurial universities" and "commercial institutions", the single most important objective of which seems to be mobilisation of more and more resources [Raines and Leathers 2003]. The "higher education bazaar" [Kirp 2003] is growing everywhere in developed as well as developing countries with all its ugly faces.

The emerging private – moderate or highly private or predominantly private – higher education systems are found to be creating serious problems in terms of access, quality and equity in higher education. Earlier reviews [e g, see Tilak 1991] have exploded several myths about the superiority of private higher education. For example, it was shown that the higher quality of private education compared with public higher education was exaggerated; that graduates from private universities do not necessarily receive higher rewards in the labour market in the form of lower unemployment rates, better paid jobs and consequently higher earnings; rather external efficiency of private higher education is not higher than public higher education; private institutions do not necessarily provide any sizeable relief from financial burden to the governments; the private sector does not respond rightly to the economic needs of the individual and society, if at all it does, it responds to short-term needs of the markets; very rarely private enterprises have genuine philanthropic motives in opening private universities, and in general such institutions tend to become profit-making institutions;[3] private institutions create inequalities in education and in society; and private institutions are also not necessarily apolitical.

Developing countries require a rapid growth of good quality higher education for their very survival in the highly competitive globalised world. Some [e g, Tilak 2003] have argued that a threshold level of gross enrolment ratio in higher education is about 20 per cent. Only those countries that could have such a ratio, could become economically advanced and vice versa. It is also important to note that only those societies that have developed their public higher education systems could economically progress; and those countries that have expanded their higher education systems depending on private sector, or what can be called, 'predominantly' private higher education systems, could not progress much. For instance, most of the countries in South America could reach a gross enrolment ratio of above 20 per cent in higher education, but they continue to remain developing countries.

The problem is essentially the interests of the market forces (private universities) and those of the state universities are different, as shown in Table 3. The former may even conflict not only with academic interests [Bok 2003] but also with national interests. As a result, protecting the research culture becomes a big challenge.

The conflicting interests of the state and the markets in education are so serious, that any attempt to forge a partnership between the two may be counterproductive. In fact, there are some who advocate a middle path – state-market partnership or public-private partnerships in higher education. This, which was described as 'welfare pluralism' [Mishra 1996] represents a middle ground, a centrist position, in the balance between the public and the private, the state and the non-state sectors. It rests on the following premises: "(a) that the limitations and limits of state-owned welfare – fiscal and administrative – should be clearly recognised; (b) that the state cannot and should not be the monopoly or near-monopoly provider of social welfare; (c) that non-state providers can and should play a bigger part in the supply, and especially delivery, of services; and (d) that the move from a state-centred welfare towards welfare pluralism could result in greater inequality in the distribution of social benefits but that this is unavoidable" (pp 229-30). But such a middle path is also not found to be really a middle path, as the power of the market forces is tremendous, and once unleashed, they are not likely to be easily regulated. What they can do, can hardly be undone and these forces cannot be regulated. As a result, the middle path eventually converges with the total market system, reminding the familiar 'The Arab and the Camel' story.

Summary and Concluding Observations

Education is a state function in almost all countries of the world. This is not confined to basic education. Even higher education, including higher technical and professional education, is heavily subsidised by the state not only in the economies where development policies tilt explicitly in favour of welfare and equity, but also in the developed market economies. Traditionally, the role of the state has been justified by the recognition of education as capable of producing externalities, as a public good (and as a quasi-public good in case of higher education), as a merit good, as a social investment for human development, and as a major instrument of equity, besides as a measure of quality of life in itself. It is also well noted that markets cannot ensure optimum supply of education, and that left to the individuals or the market mechanism, social investment would be below optimum or socially desirable levels. The quality of education offered in many private universities was found to be below the normal level and the marketing methods adopted by some institutions were beneath the dignity of a true university [Bok 2003, pp 81-82] and even of a good market. Even when markets work well and students receive quality service, private institutions may still fail to serve the public interest [Task Force on Higher Education and Society 2002, p 28]. But in the current wave of market reforms, questions are being raised on the role of the state and on the rationale of public subsidies, and it is also being indicated that it is both desirable and feasible to reduce, if not eliminate altogether, the public subsidies in higher education. This paper has presented a review of some of these arguments being made in favour of the state versus markets and restated how important it is for the state to continue to play a critical role in higher education. It is argued that any significant reduction in the role of the state in higher education is neither feasible nor desirable.

To conclude, essentially due to the critical role played by the state in higher education in the developing countries earlier and still in the advanced countries, today higher education is no more elitist; it is somewhat 'democratised' with a large proportion of socio-economic weaker sections participating in higher education. This also helped in attaining self-reliance in manpower needs of the economy (e g, India). Secondly, higher education is rightly and increasingly viewed as an, if not the only, effective instrument of socio-economic mobility of the weaker sections of the society. Thirdly, it is also widely recognised that higher education is an important factor of economic growth, and it is education that makes the basic difference between the developed and the developing countries. All this viewed in the broad context of relatively low levels of living of the people, and imperfect and incomplete markets, and given other socio-political considerations, makes it imperative on the part of the state to play a dominant role in the provision of higher education, and to yield no place to market mechanisms in higher education. EPW

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Notes

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1 See Tilak (2004).

2 There are very few who do not recognise externalities of education. For example, according to West (1965) the externalities are 'completely unimportant' Schultz (1972) opined that many benefits go to the concerned student only; and Newman (1985, p 24) feels that a large proportion of benefits of higher education goes to a relatively small group pf students.

3 To corporate investors, there is no apparent reason whey the profit motive should not produce the same good results in higher education as it does in supplying other services. They fail to note that profit motives cannot produce results of high quality [Bok 2003, p 158].

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