

Summer School – Higher School of Economics - June 2016

Higher Education: Public, Private or Both?

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Economic Ideas about the Role of State and Markets in Education

Adam Smith (1723-1790) - unleashing the market

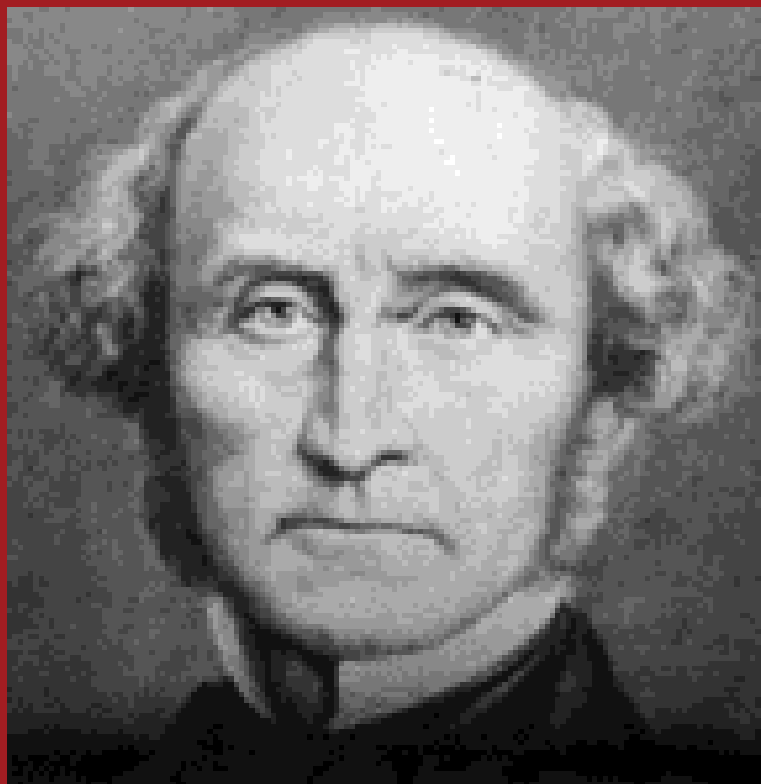


Adam Smith

“A man educated at the expense of much labour and time to any of those employments which require extraordinary dexterity and skill, may be compared to one of those expensive machines. The work which he learns to perform, it must be expected, over and above the usual wages of common labour. Will replace to him the whole expense of his education (...) the difference between the wages of skilled labour and those of common labour, is founded upon this principle.” (WN, 1776: 118-9)

“Those parts of education, is to be observed, for the teaching of which there are no public institutions, are generally the best taught.” (WN, 764).

John Stuart Mill (1806-1873) - the emergence of Paternalism



John Stuart Mill

“An education established and controlled by the State should only exist, if it exists at all, as one among many competing experiments, carried on for the purpose of example and stimulus, to keep the others up to a certain standard of excellence. Unless, indeed, when society in general is in so backward a state that it could not or would not provide for itself any proper institutions of education, unless the government undertook the task” (On Liberty, 118).

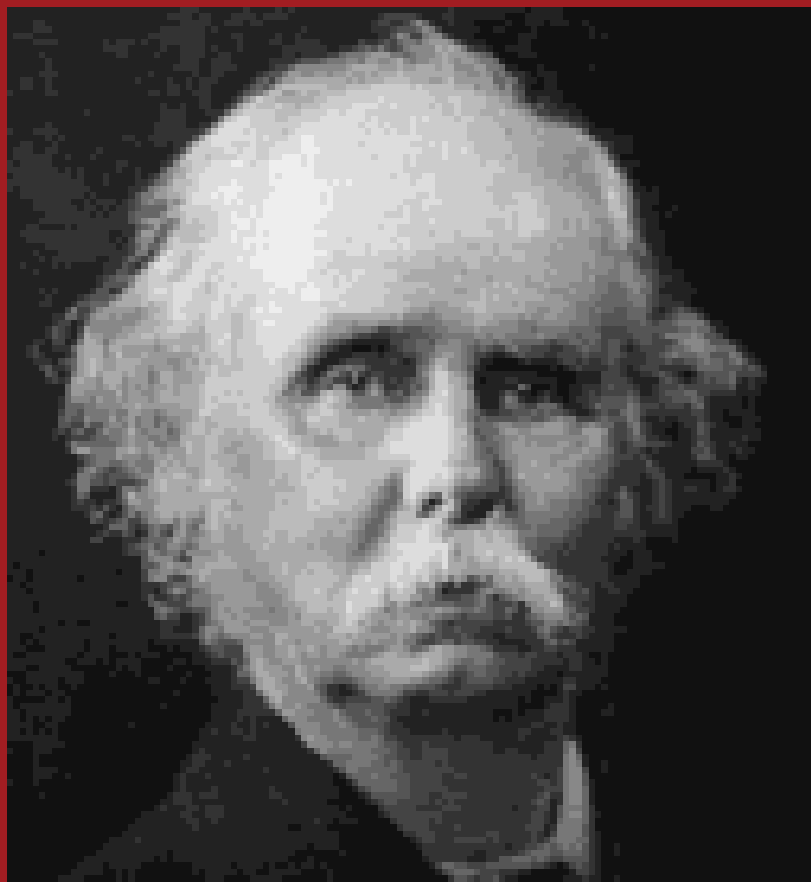
John Stuart Mill

“The State owes no more than elementary education to the entire body of those who cannot pay for it. But the superior education which it does not owe to the whole of the poorer population, it owes to the elite of them (...) the principal use of the endowments should be to pay for the higher education of those who, in the course of their elementary instruction, have proved themselves to be of the sort on whom a higher education is worth bestowing, but whose parents are not in a condition to pay the price.” (Essays in Eco & Soc).

“I conceive the practice of payment by fixed salaries to be almost fatal to the general usefulness of educational endowments”

“the fees of pupils would always be a part, and should generally be the greatest part, of his remuneration.”

Alfred Marshall (1842-1924) - Market Failures



Alfred Marshall

“he who bears the expenses of production of material goods, receives the price that is paid for them. (...) But the investment of capital in the rearing and early training of the workers of England is limited by the resources of parents in various grades of society, by their power of forecasting the future, and by their willingness to sacrifice themselves for the sake of their children. (...) This evil is indeed of comparatively small importance with regard to the higher industrial grades (...) But in the lower ranks of society this evil is very great (...) [and] this evil is cumulative (1916: 561-2)

“in rearing and educating their children, parents are governed by motives different from those which induce a capitalist undertaker to erect a new machine” (1916, I: 571)

Alfred Marshall

“Most parents are willing enough to do for their children what their own parents did for them; and perhaps even to go a little beyond it if they find themselves among neighbors who happen to have a rather higher standard. But to do more than this requires, in addition to the moral qualities of unselfishness and a warmth of affection that are perhaps not rare, a certain habit of mind which is as yet not very common. It requires the habit of distinctly realizing the future, of regarding a distant event as of nearly the same importance as if it were close at hand (discounting the future at a low rate of interest); this habit is at once a chief product and a chief cause of civilization, and is seldom fully developed except among the middle and upper classes of the more cultivated nations.” (1916: 216-7)

Milton Friedman (1912-2006) - Bringing Markets back to the Debate



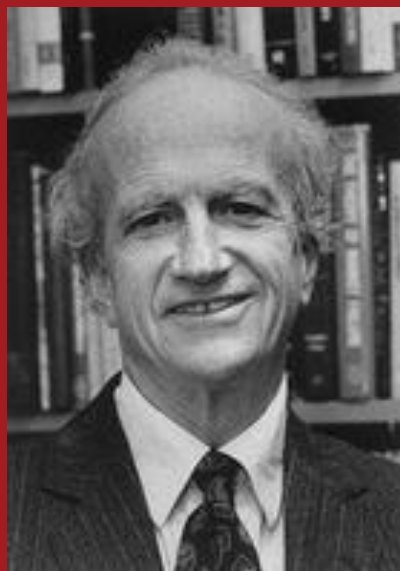
Milton Friedman

“Formal schooling is today paid for an almost entirely administered by government bodies (...) This situation has developed gradually and is now taken so much for granted that little explicit attention is any longer directed to the reasons for the special treatment of schooling (...) The result has been an indiscriminate extension of governmental responsibility.” (1962, 85)

“For higher schooling, the case for nationalization on grounds either of neighborhood effects or of technical monopoly is even weaker” (1962, 98)

“The subsidization of institutions rather than of people has led to an indiscriminate subsidization of all activities appropriate for such institutions, rather than of the activities appropriate for the state to subsidize” (1962, 100)

The Human Capital Revolution



Jacob Mincer (1922-2006) – Gary Becker (1930-) – T. W. Schultz (1902-1998)

Education regarded as Human Capital:

- Higher Education becomes an individual and social Investment
- Who benefits and who should pay?
- Looking at Higher Education from an economic perspective – effects, rationales, motivations, behaviour, objectives,...
- **The controversies about the economic analysis and purposes of education;**
- **Cost-benefit analysis, rationality, incentives, efficiency;**

Provision and Regulation of HE – the influence of an economic perspective

Developments in Public Economics:

- Separating 3 Dimensions in HE
- Nature - Funding - Provision
- What role for State and Markets?

Peculiarities of HE Market:

- Public vs. private good (Non-exclusion and Non-rivalry)
- Externalities - Merit Good
- Imperfect information/Competition

Paul Samuelson (1915-2009)



Reconceptualizing HE Sector as a Market:

- Can HEI be considered a firm?
- Is Higher education a business?
- Who are HE customers?
- Do we have a higher education demand and supply?
- What is the price of higher education services?

Higher Ed as an economic activity:

- **Produces and sells educational services**
- **Their products have a price**
- **Buys inputs to obtain products**
- **Subject to technological/economic constraints**

Higher Ed as a peculiar business:

- **Multi-purpose units**
- **Nonprofit dimension**
- **Price loosely related w/ marginal cost (below)**
- **Duality of customers**
- **Customer-input technology**
- **Controlling supply and choosing customers**
- **Variability of the production function**

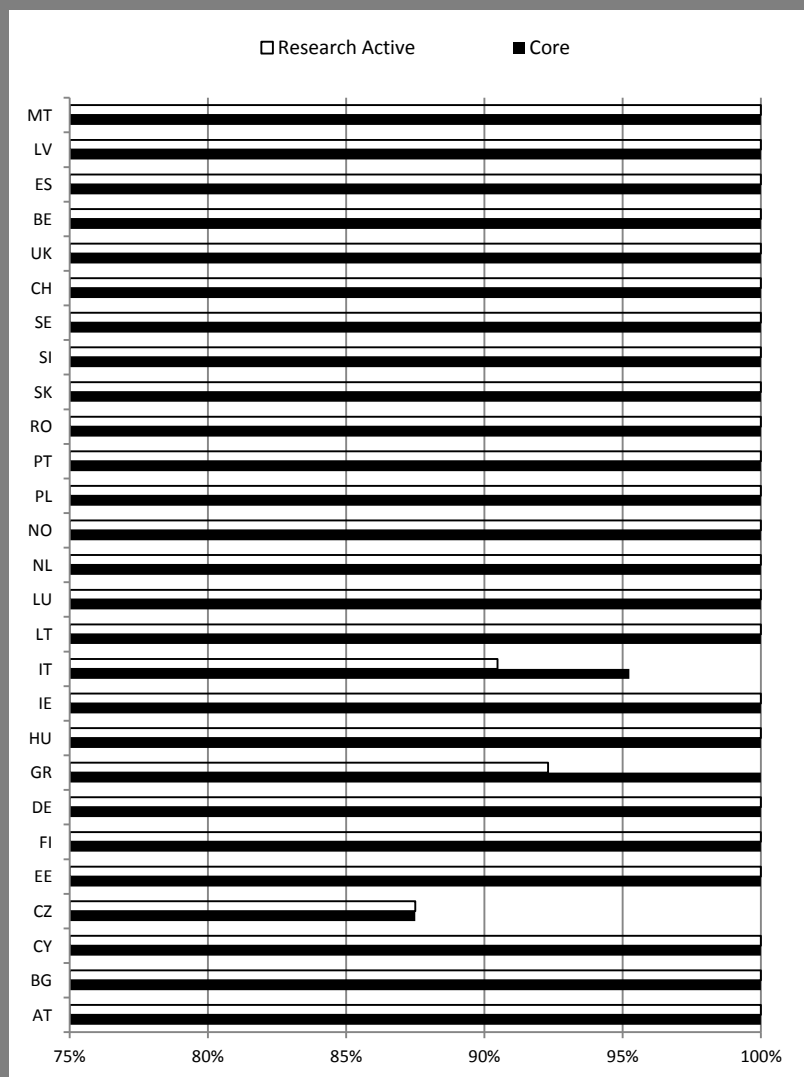
Privatization and the Provision of HE

Private Higher Education and Europe:

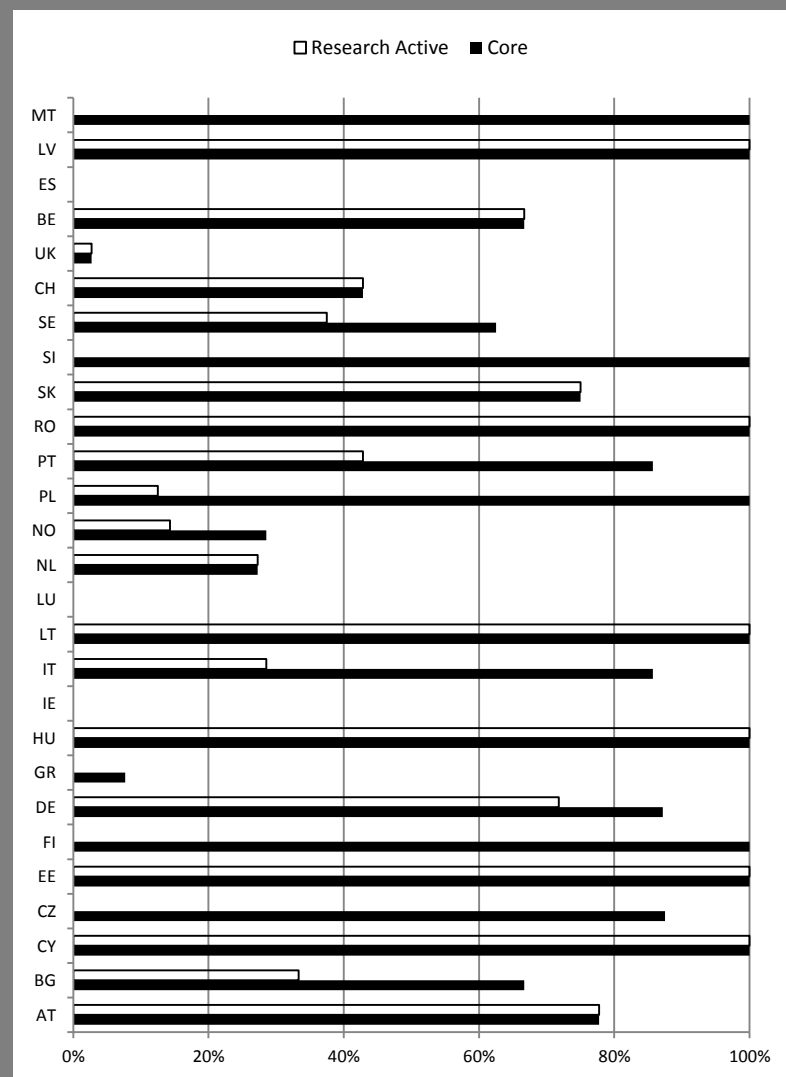
- **Financial pressures and the need to support continued expansion (demand-absortion);**
- **Different roles for Private HE in Europe;**
- **Complement to Mass HE;**
- **Resurgence of Elitism;**
- **Responsiveness to Social-economic Demands;**
- **Management flexibility (different Staff and Gradutes profiles);**

	Core Data Set							
	Public				Private			
	Nr. Institutions		Nr. Enrolled Students		Nr. Institutions		Nr. Enrolled Students	
Austria	51	75,0%	263363	97,5%	17	25,0%	6768	2,5%
Belgium ^a	66	77,6%	155226	58,6%	19	22,4%	109849	41,4%
Bulgaria	43	72,9%	201256	77,4%	16	27,1%	58689	22,6%
Switzerland	34	94,4%	171673	99,5%	2	5,6%	922	0,5%
Cyprus	9	24,3%	7780	33,7%	28	75,7%	15306	66,3%
Czech Rep.	28	38,4%	328426	86,6%	45	61,6%	50794	13,4%
Germany	288	70,9%	1910854	95,5%	118	29,1%	90181	4,5%
Estonia	19	55,9%	56556	83,0%	15	44,1%	11612	17,0%
Spain ^b	47	n.a.	1167901	n.a.	n.a.	n.a.	n.a.	n.a.
Finland	49	100%	296569	100%	0	0%	0	0%
Greece	59	98,3%	584230	100%	1	1,7%	44	0%
Hungary	30	41,7%	328935	86,3%	42	58,3%	52098	13,7%
Ireland	21	100%	155036	100%	0	0%	0	0%
Italy	147	60,5%	1866737	93,1%	96	39,5%	138503	6,9%
Lithuania	28	60,9%	183027	90,4%	18	39,1%	19482	9,6%
Luxembourg	1	100%	3526	100%	0	0%	0	0%
Latvia	37	60,7%	77693	69,0%	24	39,3%	34874	31,0%
Malta	3	75,0%	10276	97,7%	1	25,0%	239	2,3%
Netherlands	54	91,5%	624520	99,2%	5	8,5%	5031	0,8%
Norway	63	92,6%	199494	92,4%	5	7,4%	16357	7,6%
Poland	131	28,7%	1295758	66,3%	326	71,3%	658711	33,7%
Portugal	40	29,0%	282438	75,7%	98	71,0%	90564	24,3%
Romania	55	67,1%	648117	62,7%	27	32,9%	386097	37,3%
Sweden	36	73,5%	338795	92,8%	13	26,5%	26367	7,2%
Slovenia	7	63,6%	92169	95,7%	4	36,4%	4154	4,3%
Slovakia	23	69,7%	201926	86,7%	10	30,3%	31010	13,3%
UK	149	99,3%	2247639	100%	1	0,7%	985	0,0%

Proportion of NUTS II regions with at least one public HEI

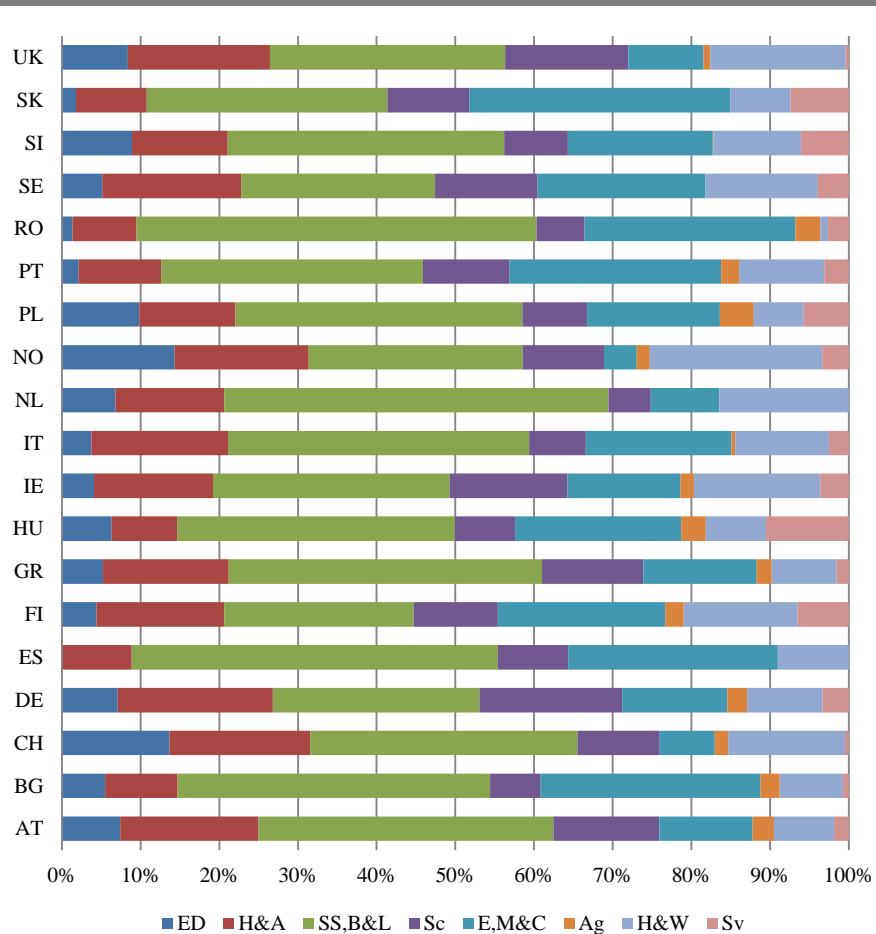


Proportion of NUTS II regions with at least one private HEI

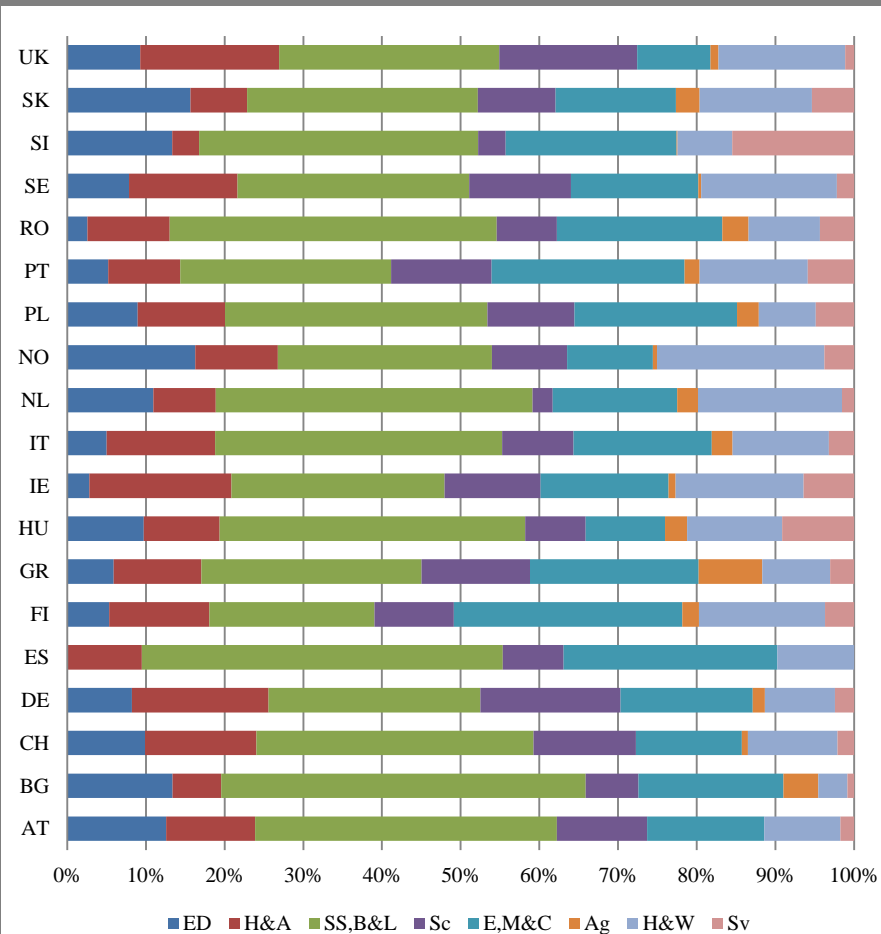


Distribution of Enrolments by Scientific Areas

Public Sector– Capital Region



Public Sector– Excluding Capital Region

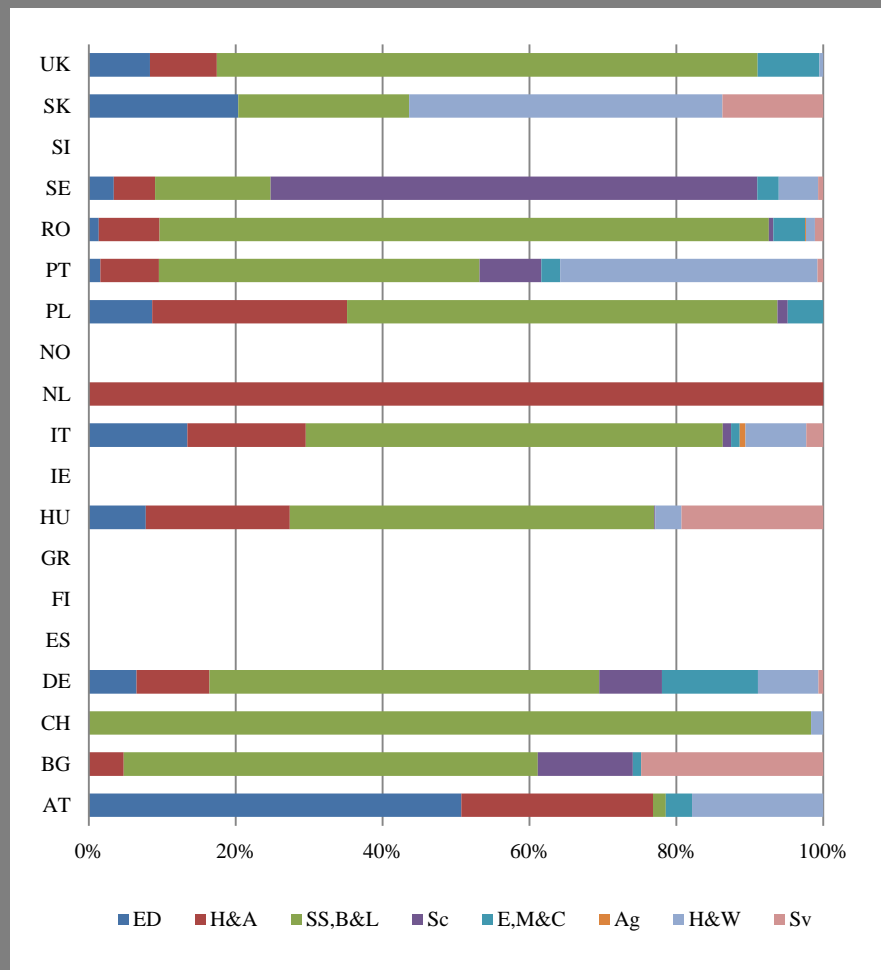


Distribution of Enrolments by Scientific Areas

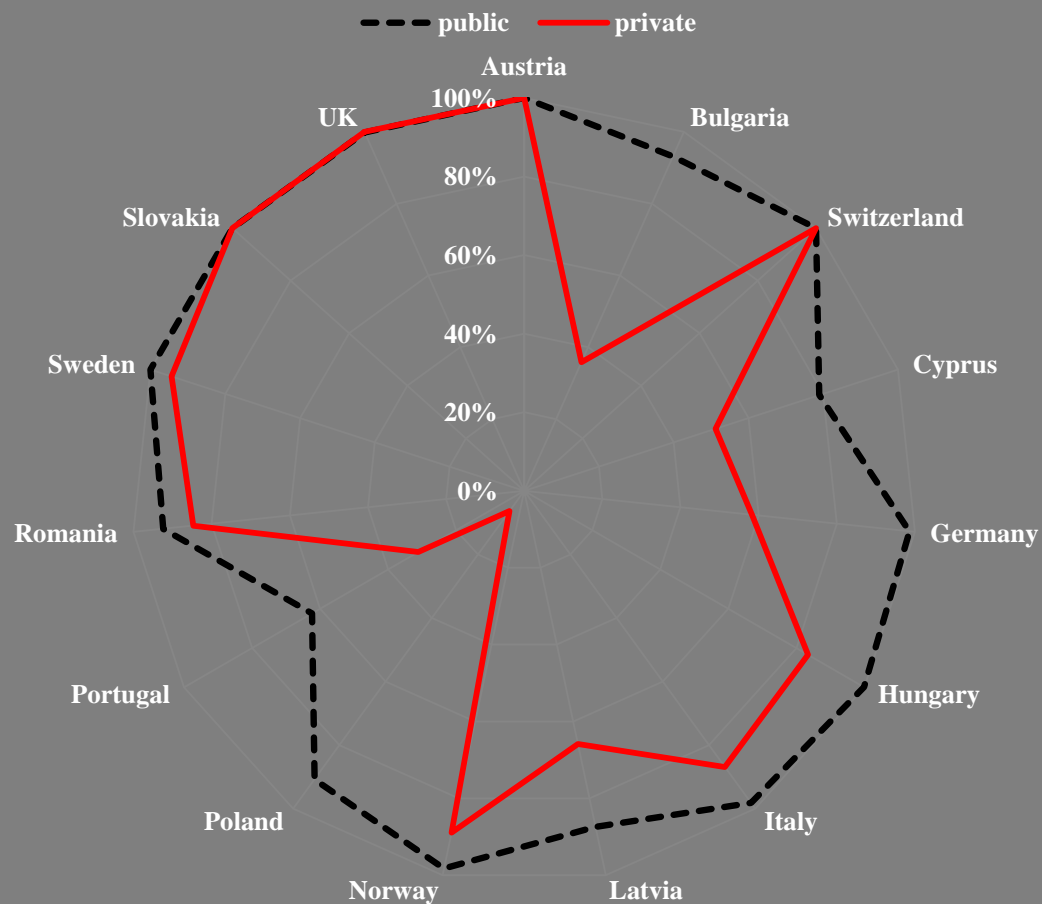
Private Sector– Capital Region



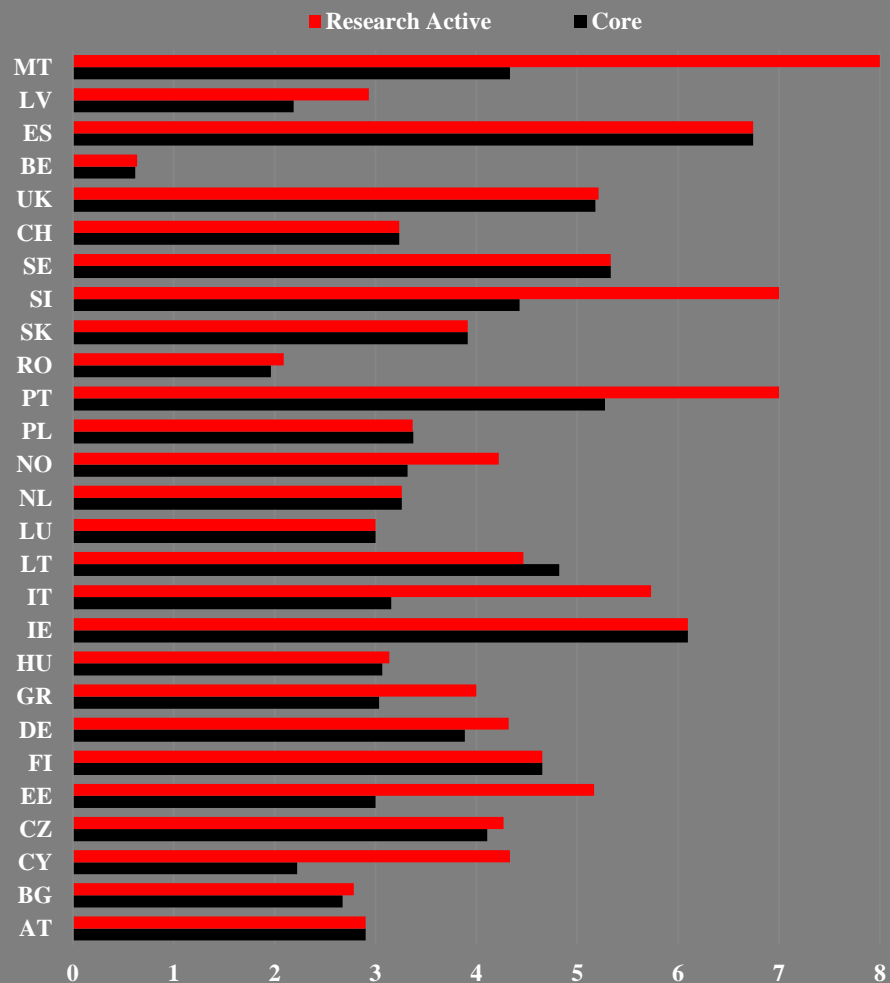
Private Sector– Excluding Capital Region



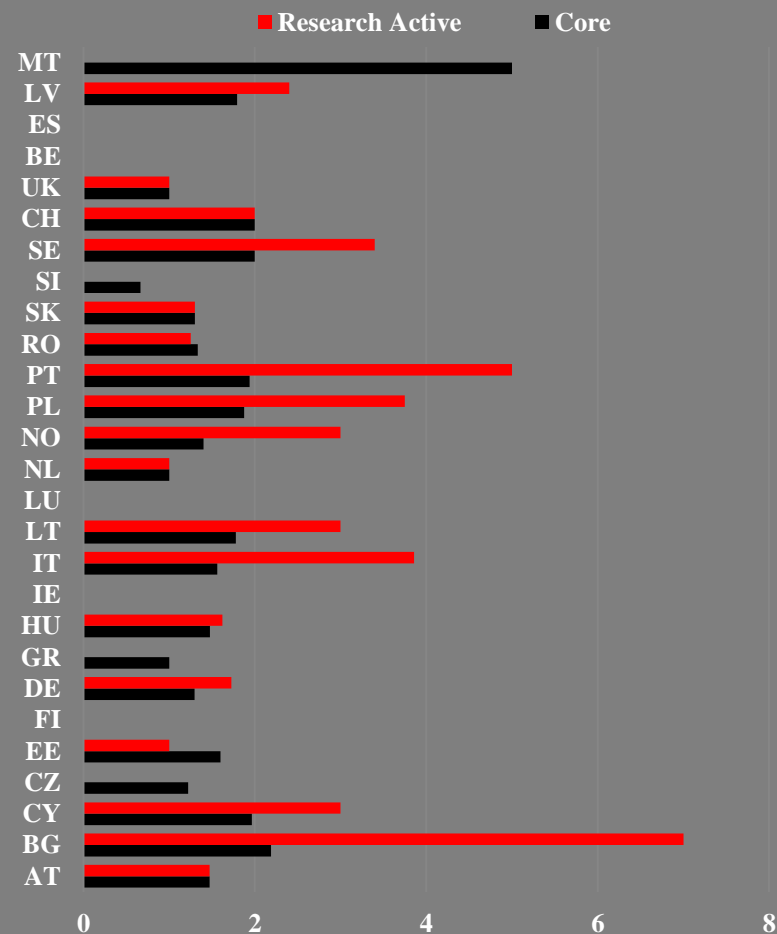
Relative weight of the RAIs in the public and private sectors in terms of enrolled students



Average Number of Educational Fields – Public Sector



Average Number of Educational Fields – Private Sector



Concluding Remarks

Declining Publicness and Growing Privateness?

- **The (changing) influence of Economics in Higher Education**
- **Society's views about HE – individual and social**
- **HE's system – markets, privatization, competition**
- **Public and Private HE as different realities, despite blurring boundaries**
- **HEIs as quasi-economic organizations: mission, perceptions, priorities, internal organization**

Thank you!

Questions? Comments? Complaints?...

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