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Public and private good(s) in higher education

Simon Marginson
Centre for the Study of Higher Education
University of Melbourne

Why do public and private goods matter?

- Higher education and research science should be organized and financed to generate more and better private (individualized) goods and also more and better public (common) goods
- Public and private goods are not necessarily in conflict, though some frameworks model them as either/or
- A chief problem is identifying, monitoring, judging and where relevant measuring public goods. Identification of public goods enables an optimal mix of provision. But what jurisdiction does this successfully?
- Policy emphasis on private returns to degrees is associated with an under-focus on public/social goods, including global public goods

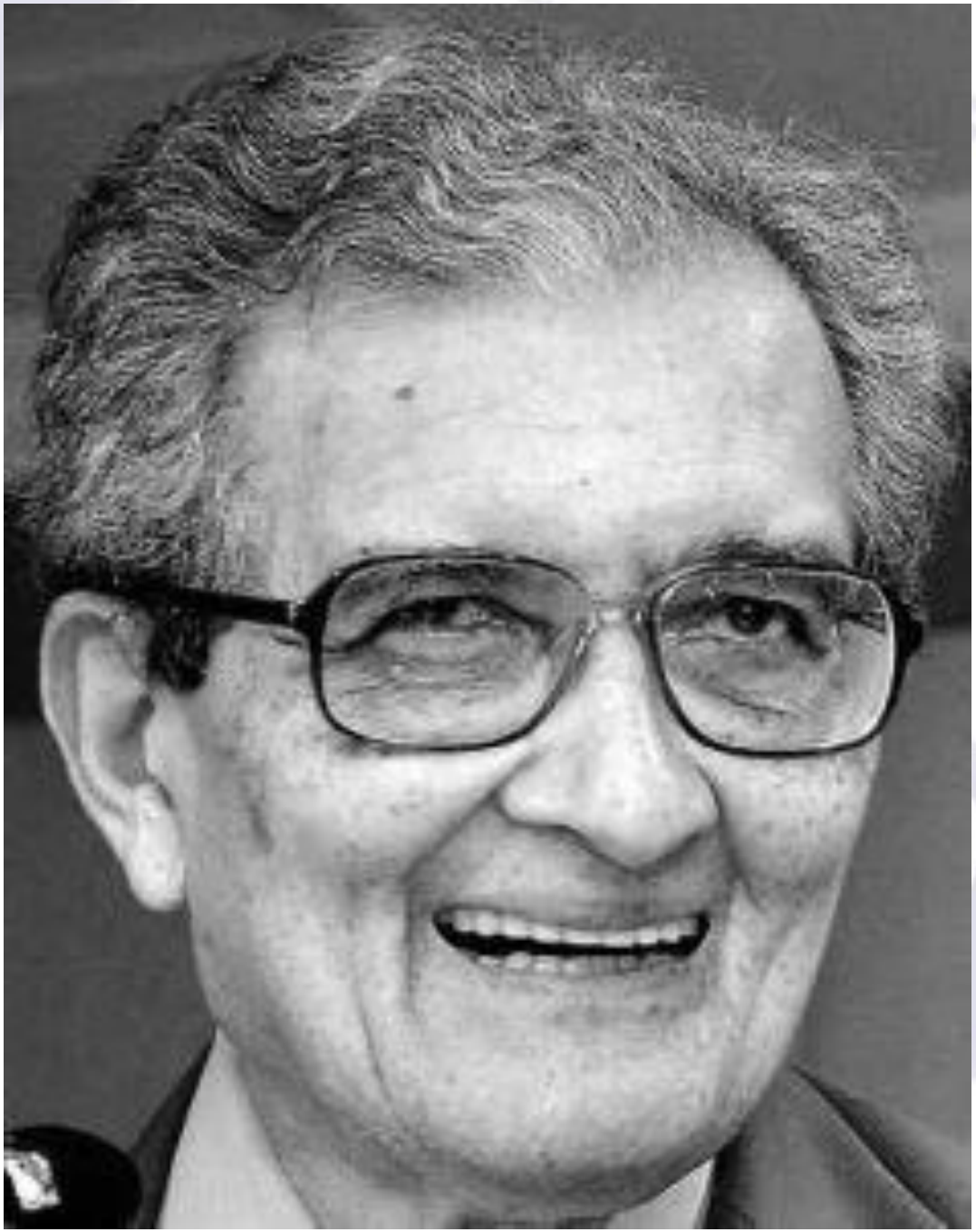
How are we to understand the relational social environment ('society') and within it the 'public'?

- as an economic market?
- as a governed space, the space of the state?
- as a combination of self-actualizing individual citizens?
- as a communicative realm, of social networking and media/ Internet, stretching to the ends of the earth
- as all of these?
- and if so which parts are 'public' and which are 'private'?

Different disciplines are brought to bear on this problem

- Economic theory: Samuelson's notion of public and private goods and its various refinements
- Economics: Rates of return analysis as one means of estimating the private benefits for graduates
- Economic theory: Stiglitz's knowledge as a global public good
- Public administration: the 'public' sphere is that administered by the state
- Political theory: Amartya's Sen's notion of freedom grounds a different idea of the individual subject to the utility-maximising individual of economics
- Political theory: Notions of common or collective social goods in democratic societies feed into one approach to public goods
- Political theory: Habermas's 'public sphere' has been used to model the public role of higher education, by Calhoun and others

Amartya Sen: notion of individual freedom



Amartya's Sen's notion of freedom: a richer notion of the 'private individual' than found in economics

For Sen human freedom embodies three elements

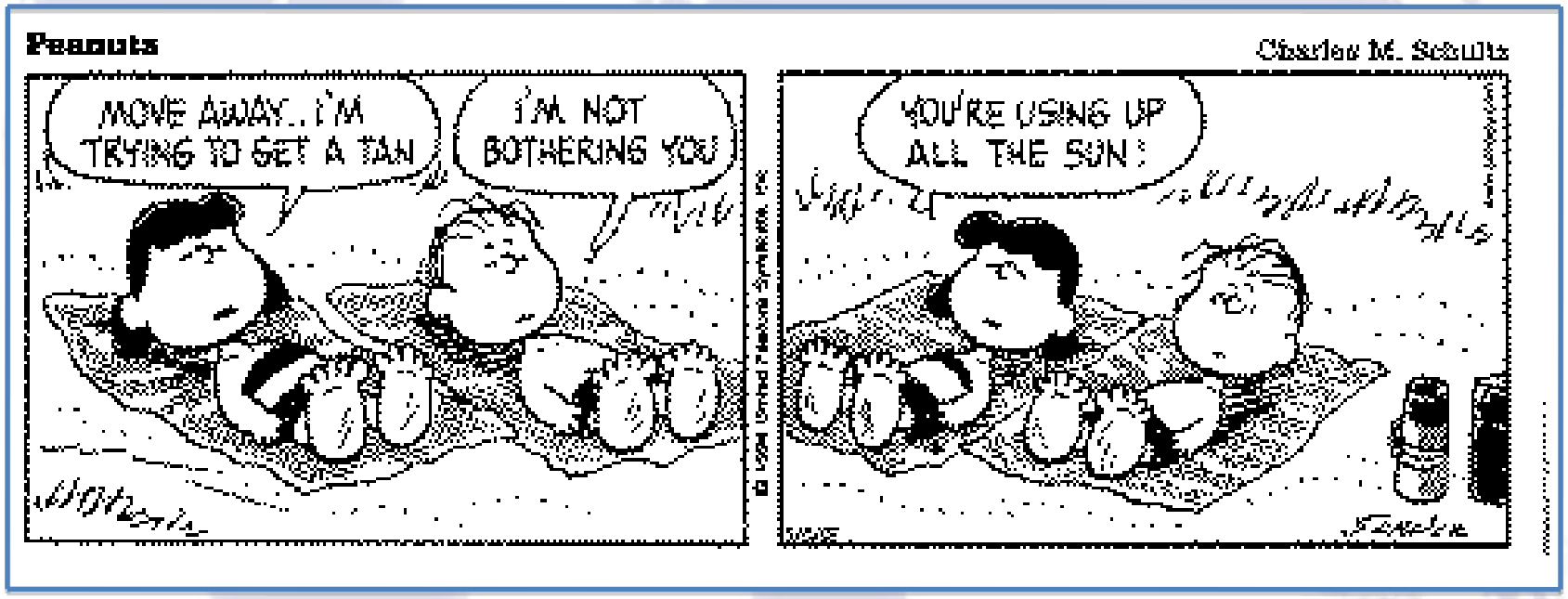
- Freedom from external threat, coercion or constraint, or 'control freedom'(Berlin called it negative freedom)
- Freedom as the capacity of the individual to act, which depends on capacities, resources and social arrangements: 'freedom as power' (others call it positive freedom)
- 'Agency freedom': the active human *will* that is the ultimate seat of self-directed conscious action

These three elements of freedom are interdependent. We need all of them to exercise self-determination in social settings. Higher education fosters the second and third aspects

Paul Samuelson: private and public goods

Samuelson on public and private goods

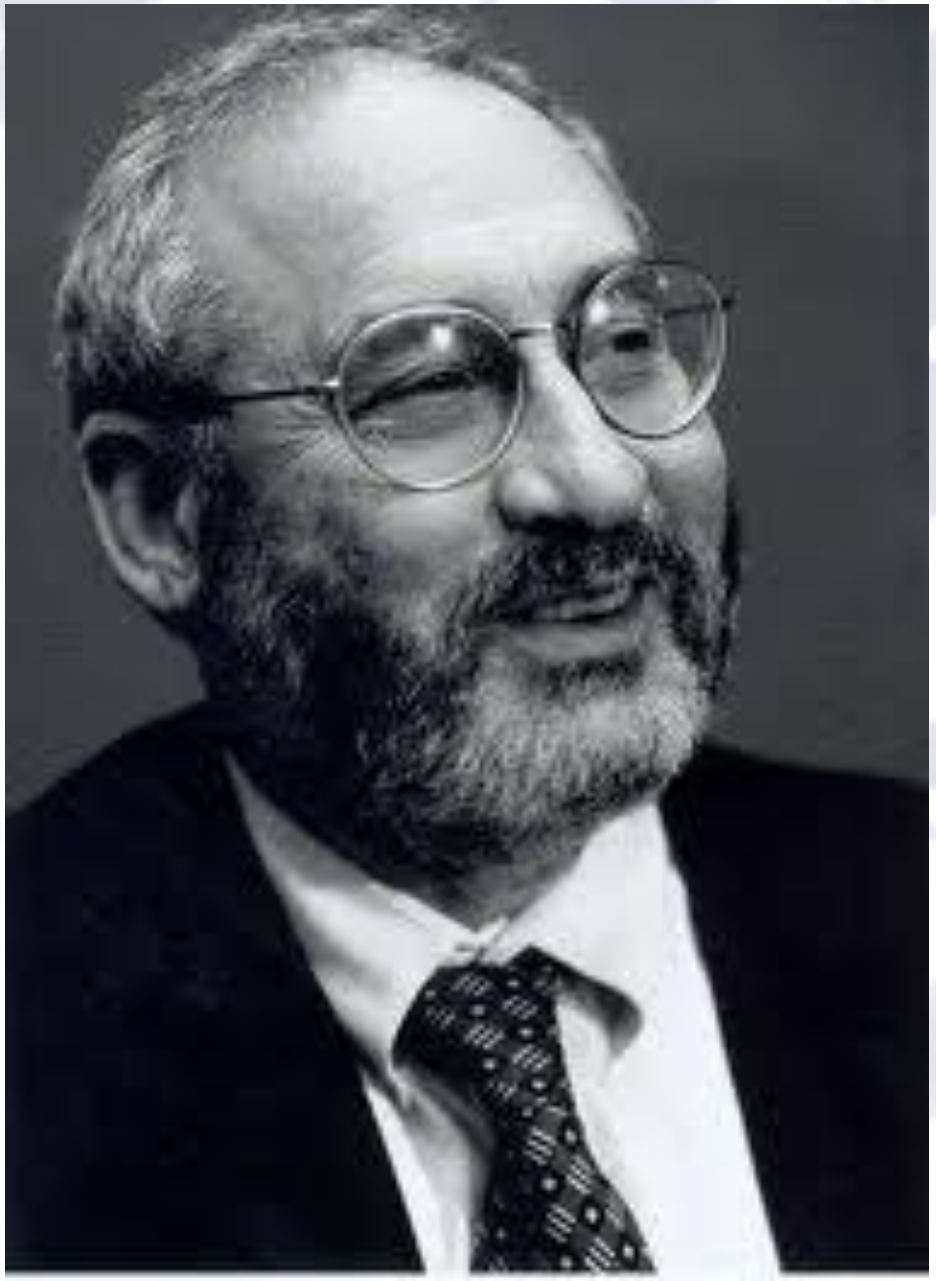
- *Public goods are residual:* All goods are private goods and producible in markets unless they have the special characteristics of public goods, which are:
- *Non-rivalrous or indivisible:* a unit of the good can be consumed by one individual without detracting from the consumption opportunities the unit provides to others
- *Non-excludable:* when a good is provided to one individual its benefits spill-over to many others who did not pay
- *Hence public goods are under-produced in markets* and require government or philanthropic intervention


Peanuts
Charles M. Schulz
MOVE AWAY.. I'M TRYING TO GET A TAN
I'M NOT BOTHERING YOU
YOU'RE USING UP ALL THE SUN!

Ostrom's four types of good

Difficulty of excluding beneficiaries	Subtractability of use (rivalry, use by one subtracts from benefits available to others): HIGH	Subtractability of use (rivalry, use by one subtracts from benefits available to others): LOW
HIGH	*Common-pool resources:* groundwater, lakes, irrigation systems, fisheries, forests, etc	*Public goods:* peace and security, knowledge, fire protection, weather forecasts [basic research]
LOW	*Private goods:* food, clothing, automobiles, etc [scarce places in universities and professional programs]	*Toll goods:* theaters, private clubs, daycare centers, etc [some forms of private education]

Joseph Stiglitz: knowledge as a (global) public good



Knowledge as a global public good

- Knowledge is predominantly a public good. There is a moment of excludability, when it is first created and disseminated. Once disseminated it has no subtractibility (non-rivalrous) and it can be rendered partly excludable only though artificial means such as rules governing journals
- It is also a global public good – the mathematical theorem retains its value all over the world no matter how many times it is used
- Hence basic research everywhere is funded by governments and philanthropy, or by universities themselves

Global public goods

- ‘Global public goods are goods that have a significant element of non-rivalry and/or non-excludability and made broadly available across populations on a global scale. They affect more than one group of countries, are broadly available within countries, and are inter-generational; that is, they meet needs in the present generation without jeopardizing future generations.’

  ~ Inge Kaul, I. Grunberg and Marc Stern (Eds.), *Global Public Goods: International cooperation in the 21st century*, New York, Oxford University Press, 1999, pp. 2–3

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Notes

1.Potential for global public ‘bads’ – negative cross-border externalities such as brain drain

2.Who pays for global goods? How can they be governed in the absence of a global state?

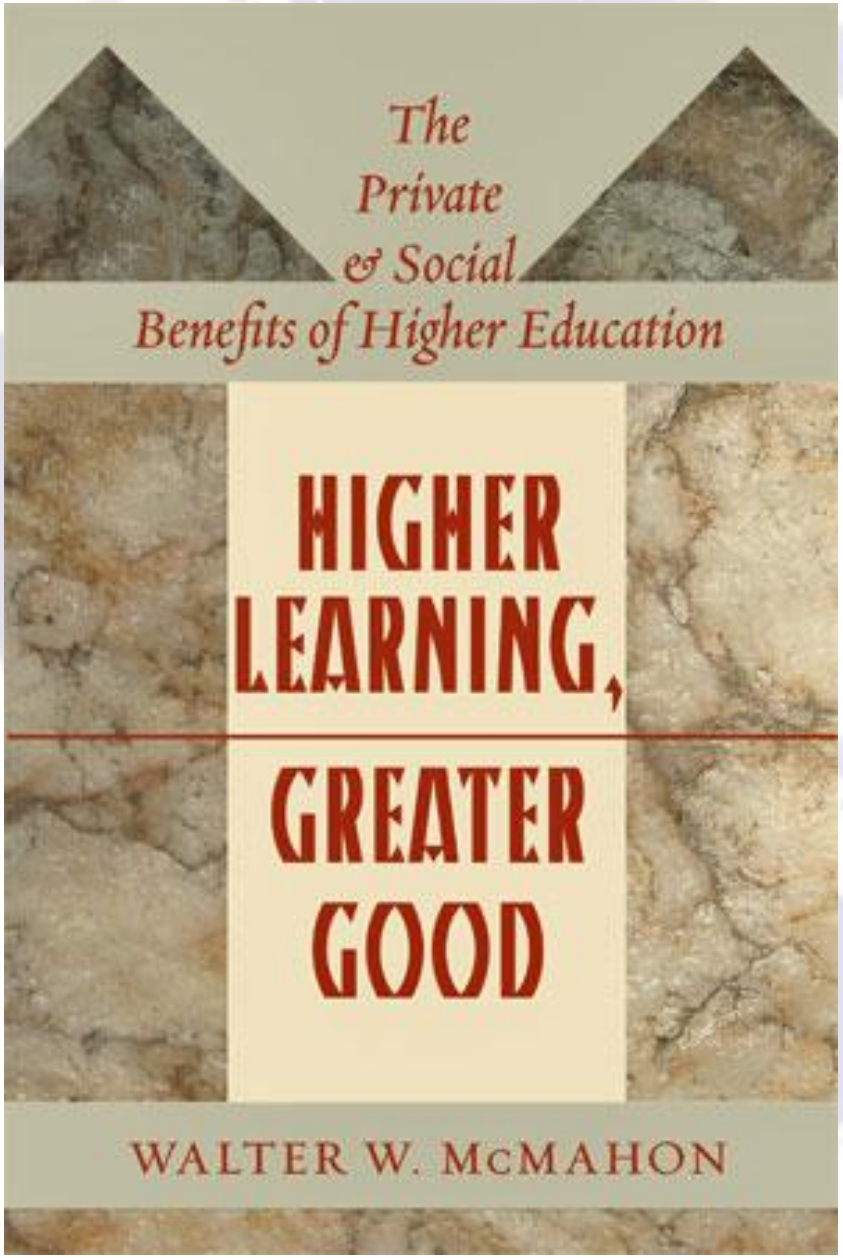
RESEARCH	Rivalrous	Excludable
New knowledge at the point of creation	YES	YES confined to creator (or owner) enabling IP development
Knowledge held within scholarly circle	NO	YES club good, access policed by rules
Knowledge published in commercial journals	NO	YES club good, access policed by price
Knowledge circulating freely in social communications	NO	NO a pure public good, knowledge in its most natural and final state

Teaching

- Teaching/learning are associated with both private and public goods. Private goods included social status, earnings consequent on education whether due to productivity or selection effects, social and cultural capital, better health, non pecuniary benefits like cultural sensibility. Public goods include knowledge content of curriculum, and social externalities including common literacy, diffusion of new technologies, social equity in opportunity, the contribution to democracy, encouraging tolerance of diversity, etc
- Teaching is *policy sensitive,* e.g. the private good aspect is enhanced by high tuition that increases scarcity of places; equal resourcing of universities tends to flatten differentials in private value
- Note that states can finance private as well as public goods – and often do. Most states finance the production of scarce positional goods with high private value, produced in elite institutions like MSU

TEACHING	Rivalrous	Excludable
As a universal right	NO	NO BY DEFINITION
Knowledge contents	NO	NO
General education in non elite institutions	NO	NO in mass education a public good
Vocational education	YES congestion	YES varies, more so in elite institutions
Elite networking, cultural capital, status	YES congestion	YES capable of market production

Walter McMahon,
University of Illinois



McMAHON'S ESTIMATE Of PRIVATE NON MARKET BENEFITS OF COLLEGE EDUCATION (direct benefits, average college graduate, 4.5 years of education, 2007 US dollars)	
Own health benefits	16,800
Own longevity	2179
Spouse's health	1917
Child's health	4340
Child's education and cognitive development	7892
Management of fertility and lower family size	1551
Better consumption and saving patterns	3401
Total value of quantified private non-market benefits p.a.	38,080
Other positive non-market private effects (unquantified) related to job conditions and location amenities, better tastes, less obsolescence of skills due to better general education, greater well-being via enhanced income, etc. See McMahon 2009.	

McMAHON'S ESTIMATE Of DIRECT SOCIAL EXTERNALITIES OF COLLEGE EDUCATION (average college graduate, 4.5 years of education, 2007 US dollars)	
Democratization and political institutions	1830
Human rights and civic institutions	2865
Political stability	5813
Community life expectancy	2308
Reduced inequality (greater opportunity, less poverty, etc.)	3110
Less crime	5647
Reduced health costs and prison costs	544
Environment (cleaner air and water, less deforestation)	5609
Total social benefits	27,726
Other positive social benefits (unquantified here) related to higher tax receipts, social capital, the dissemination of the outcomes of R&D. See McMahon 2009.	

McMAHON'S ESTIMATE Of TOTAL BENEFITS OF COLLEGE EDUCATION (average college graduate, 4.5 years of education, 2007 US dollars)	
Net private earnings benefits p.a.	31,174
Non-market private benefits p.a.	38,080
Direct social benefits (direct externalities) p.a.	27,726
Total p.a.	96,980

Direct social externalities constitute 29 per cent of the total benefits of higher education. However, total externalities include the indirect social benefits. These are the contributions of externalities to the value generated in private earnings and private non-market benefits.

Once this indirect element is included, McMahon estimates that externalities total 52 per cent of the average value of higher education.

Does economics allow us to determine the balance of public and private costs?

- McMahon concludes the proportion of all benefits of higher education that are externalities "is the best guide to how far the trend toward privatization in the financing of higher education should go". This includes defined social equity benefits. "If control of higher education is to be relinquished to private markets, there needs to be analysis of the extent of market failure leading to distortions… If there is poor information available to the average citizen and politician about the value of the non-market private and social benefits of higher education, then poor investment decisions and policy decisions will result (McMahon, 2009, p. 2)

Beyond economics 1

- *BUT* identification of at least some public goods (including social equity) are governed by political philosophy, i.e. the public goods are politically determined not technically determined. Precise calculations of most public goods, such as those discussed by McMahon, are also assumption dependent, i.e. politically determined

Beyond economics 2

- Because of its methodological individualism, economics is especially weak in estimating the value of collective goods, which are not individualisable. Collective goods such as public knowledge or social order are not aggregates of individual goods, they are relational/systemic goods quite distinct from individual goods, goods of another kind
- Some social science measurement of collective goods is possible, e.g. volumes of knowledge flows, extent of social mobility between generations

Concluding thoughts 1

- Economics has only part of the answer and we need a new political philosophy of public/private
- Better to think of each of 'public' and 'private' as positive, and as mutually inter-dependent, not as either/or
- This is more possible when we understand 'private' in terms of the richer individuality discussed by Sen rather than understanding people solely as utility-maximizers or private consumers
- The question then becomes (a) how can the common public realm provide better conditions for private individuality, and (b) how can individuals contribute to fostering the common space

Concluding thoughts 2

- We need to better model the social/relational space in which higher education is located, and the potentials of higher education to create individual and social goods ('private and public goods') in that space
- States create both individual and social goods (private and public goods) in higher education, and private organizations can also create both kinds of good, though all else being equal states are necessary to some public goods
- We cannot read the financing equation - the balance of free education/tuition fees/state financing - from our notions of private and public goods. Tuition is politically determined which is why it varies enormously across the world, in societies otherwise similar in many respects
- Global public goods (and bads) need systematic attention