

Financing of Higher Education: Traditional *versus* Modern Approaches*

Yükseköğretimin finansmanı: Geleneksel ve modern yaklaşımların karşılaştırılması

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Özet

Geleneksel olarak yükseköğretim, neredeyse tüm ülkelerde yoğun bir şekilde devlet tarafından desteklenir. Bu durum, eğitimin kendi içinde bir yaşam kalitesi ölçüsü olmasının yanı sıra kamu malı (ve yükseköğretim bakımından kamu malına yakın bir şekilde), değer malları, insan gelişimi için sosyal bir yatırım ve eşitliğin temel bir amacı olarak dış etkiler üretme kapasitesi şeklinde tanınmasıyla gerekçelenmektedir. Gelişmekte olan ve gelişmiş ülkelerin çoğunda neo-liberal ekonomik reformların ortaya çıkışı, yükseköğretime ayrılan kamusal bütçelerin daralmasına yol açmıştır. Yükseköğretimin finansmanındaki son eğilimler, yükseköğretimin rolü üzerindeki algıları değiştirmeye ilişkilendirilmekte, bunun sonucu olarak, üniversitelerin oluşturulması ve ayakta tutulması sürecinde ticari modeller benimsenmektedir. Örneğin özel üniversiteler, ticari üniversiteler, kurumsal üniversiteler ve girişimci üniversiteler gündem konusu haline gelmektedir. Kamu malı, değer malı, sosyal yatırım ve insan hakları olarak yükseköğretim gibi sıralanabilecek yükseköğretimin çeşitli temel karakteristik özellikleri tehdit altındadır. Son kanıtlar göstermektedir ki birçok üniversite, maliyet kurtarma önlemleri denemekte, öğrenci ücretleri ve diğer sivil kaynaklardan kaynak yaratmaktadır. Sağlam politikalar oluşturmak için, yükseköğretimdeki bu maliyet kurtarma önlemlerinin nicelik, kalite ve eşitlik üzerine etkilerinin incelenmesi gerekmektedir. Bu makale, yükseköğretimin kamusal finansmanı lehinde ve aleyhinde ileri sürülen ve yükseköğretimin finansmanının devlet için ne kadar önemli olduğunu tekrar ifade eden argümanların bazılarını hızlı bir bakış sunmaktadır. Makalede eğitime yönelik kamu desteğinde ciddi bir azalmanın uygun ve (uygun olsa dahi) arzulanabilir olmadığı vurgulanmaktadır.

Anahtar sözcükler: Kamu malı, maliyet kurtarma, neo-liberal politikalar, öğrenci kredileri, refah devleti, ücretler.

Abstract

Conventionally, higher education is heavily subsidised by the state in almost all countries. This 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. The launching of neo-liberal economic reforms in most developing and developed countries of the world has led to shrinking the public budgets for higher education. Recent trends in funding higher education are associated with changing perceptions on the role of higher education. As a result, business models are adopted in setting and running universities. Private universities, commercial universities, corporate universities and entrepreneurial universities are becoming the order of the day. The several basic characteristic features of higher education, such as higher education as a public good, merit good, social investment, and as a human right are under attack. Recent evidence shows that many universities are experimenting with cost recovery measures, generating resources from student fees, and other non-governmental sources. The effects of these cost recovery measures on the quantity, quality and equity in higher education need to be examined for sound policy making. The paper presents a quick review of some of these arguments being made in favor of and against public financing of higher education and restated how important it is for the state to finance higher education. It is argued that significant reduction in public subsidies to education is neither feasible, nor desirable, even if feasible.

Key words: Cost-recovery, fees, neo-liberal policies, public good, student loans, welfare state.

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The 'structuralists', welfare economists and specialists in public finance who believe in the philosophy of 'welfare state' and in the role of the government in promoting welfare of the people in general, and in the externalities associated with education in particular, on the one hand, and the 'neo-liberal' economists who have staunch faith in market philosophy on the other side constitute two distinct schools of thought on issues relating to financing higher education. The debate between the two sides is intense. The structuralists argue in favour of a dominant, if not a monopolistic role of the state in financing of higher education. On the other hand, the neo-liberals argue for drastic cut in state finances and increasing reliance on markets, on private finances and even privatisation and commercialisation of higher education. In more recent years, a third school is emerging, which argues for seemingly a middle path, a method of mixed financing. While mixed financing is not altogether new, new forms of public-private partnerships are being proposed. The new modes of public private partnerships often described as a business deal, involve mainly, transfer of public resources to private sector in higher education. In fact, the third school is not much distinct from the neo-liberal school of thought. Its arguments are a part of the main arguments of the neo-liberals, though there is one major difference. When one argues for mobilisation of private finances and privatisation of higher education, the role of the state is visualised to be one of a facilitator, providing an enabling framework for the private sector to grow, and to eventually replace the public system. Those who argue in favour of PPP, argue for the State to go beyond and provide finances to the private sector for it to grow. The arguments of these schools need to be critically examined.

Public Funding of Higher Education: The Welfare State Approach

Education, including higher education, is heavily, if not totally subsidised by the state in almost all the countries of the world for a long period (*see* Blaug and Woodhall, 1979; Tilak, 1997b). Higher education is financed out of tax revenues that the government mobilises through its taxation system, and is provided to the students either free or at a highly subsidised fees. This approach, the traditional approach practiced for centuries, is more explicitly embedded in the welfare state policies adopted by the newly independent countries and other countries after the Second World War. This has been the dominant pattern until recently. There exists a powerful persuasive economic logic and a social, political and historical rationale for this (Tilak, 2004).

Education is a public good and higher education is at least a quasi-public good (Vaizey, 1962; Eckaus, 1964; Blaug, 1970; Levin, 1987; Tomilnson, 1986), producing a wide variety and huge magnitude of externalities. Students in higher education confer external benefits on those not acquiring education. The social benefits of having a large higher educated population go beyond the increase in gross national product. Social benefits of education cannot be reduced to individual self interest. The positive externalities constitute a powerful justification for public financing of higher education (Tilak, 2008).

A closely similar aspect is education is also a social merit good (Musgrave, 1959; *see also* Arcelus and Levin, 1986). It is a merit good, consumption of which needs to be promoted. People could be ignorant of the benefits of higher 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 thereby may be unwilling to invest adequately in education. But governments are expected to have better information than individuals or families, and should be wiser in understanding the implications of making long term investments and more able to look into the future and accordingly take wise decisions regarding investment in education which itself is a long term activity. The important aspect is that not the others, but the individual recipient him/herself benefits to a greater extent than he/she is aware of. Consumer ignorance is a typical case that necessitates public subsidisation of higher education.

Thirdly, public financing of higher education is advocated on the grounds of providing equality of opportunity. Ensuring equality of opportunity in education to every one irrespective of social and 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 higher education so as to guarantee 'equality of educational opportunity' (*see* Blaug and Woodhall, 1979, p. 352). As an effective instrument of equity, higher education needs to be financed by the state.

A strong argument accepted by many in support of public subsidies 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. 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, whose gestation period is relatively very long, and may not be ready to take risk of investing in education, whose benefits are not certain. 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 public finances.

Fifthly, higher 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 conditions, it may be more efficient for government to operate this process. University systems, scientific equipment, libraries, etc., cannot be used on a small scale. Hence it may be more efficient for government to produce it and provide it free (or at a price equal to the marginal cost) (Colclough, 1996). So government monopoly of higher education is viewed desirable, compared to allowing many producers in the field.

There are several other arguments: public financing is necessary to protect democratic rights; to promote cooperation instead of competition; to promote national values, and so on. Given all this, it is natural that governments in most countries of the world liberally financed higher education for a long time, without relying on private finances. Higher education is provided to the people free or almost free with token levels of fees and even offering liberal scholarships and stipends.

Neo-Liberal Models of Funding

Of late several questions are being raised on the rationale of state financing of higher education and alternative methods of financing are being increasingly searched and practiced. Important ones among them include, levy of high levels of fees, introduction of student loans, raising of private finances and finally privatisation of higher education. All these are adopted simultaneously in many countries. The first three and sometimes all the four are also referred to as cost recovery measures. The most popular one among these cost recovery measures is introduction of tuition and other fees where it is not levied and substantial enhancement of fees so that the fee revenues form a large proportion of costs of higher education. The second most important cost recovery measure is student loans, which is being increasingly advocated as a reliable method of financing of higher education. It is held that an elaborate method of student loans would make higher education system totally self-funding with the revolving fund created out of loan repayments. The neo-liberals also recommend performance-based funding in lieu of block grants sys-

tem of funding higher education institutions, and also funding students in the form of vouchers rather than grants to institutions, etc. Besides, higher education institutions are also required to generate resources for non-governmental sources, from industry, through consultancy, sale of services, renting of buildings, etc., and even by 'going abroad', attracting foreign students who were levied higher levels of fees. Another measure often suggested in this context is building university-industry relations. The other measure that finds strong encouragement from the neo-liberals is to allow private sector to set up and run universities and institutions of higher education either as not-for-profit or as for-profit institutions. The neo-liberals favour growth of private institutions at such a rate that private institutions dominate the higher education scene and eventually displace the whole public system of higher education.

Lastly, a variety of forms of public-private partnerships – some familiar, and some not so familiar is being proposed. It is argued that PPP provides an avenue to tap the untapped private resources and it will ease financial constraints, private sector making huge investments on its own. Given the limited public resources, PPPs are seen as not only unavoidable but desirable. It is felt that with PPP, total resource base will increase, there will be improved access to education, and with competition, efficiency and quality will increase, and unit costs will come down. Rather it is argued that private and public sectors complement each other. It is further argued that PPP will provide flexibility in relaxing restrictions associated with public sector with respect to salary structure, recruitment policies, admissions, fees and resource mobilization, management and governance and will enable the system to respond to market signals promptly and efficiently (Patrinos et al, 2009).

The several arguments put forth by neo-liberals are essentially of three kinds: efficiency arguments, equity arguments, and pragmatic considerations.

First, the social rates of return are found to be consistently lower than private rates of return to higher education, and hence it was recommended that public subsidies could be reduced, and individuals could be asked to pay for their higher education. Besides, the returns to higher education are much less than those to school education (Psacharopoulos, 1994; World Bank, 1994). So on grounds of efficiency, it is suggested that governments should not finance higher education and it needs to be financed through student tuition and other measures of cost recovery.

Secondly, is argued that public funding of higher education produces perverse effects on distribution, 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 and that cost recovery measures can reduce this regressive nature in public financing of education, and thus may in fact contribute to equity in distribution of public resources (Psacharopoulos, 1977; Blaug, 1982; Mingat and Tan, 1986; Jimenez, 1987; World Bank, 2000, p. 80). Reduction in education subsidies in general is also advocated arguing that subsidies in higher education could be targeted to the poor only (World Bank, 1994).

Thirdly, governments in developing as well as advanced countries are increasingly facing resource crunch. Economic reform policies adopted in many developing countries, broadly known as structural adjustment policies also necessitate cuts in public expenditures across the board. Higher education is viewed as one sector, where public expenditures can be reduced relatively easily. Then without significant levels of cost recovery, public budgets will not be able to meet the social demand for higher education, and higher education may suffer from a severe degree of under-investment (Psacharopoulos, 1986, p. 563). Cost recovery measures will allow an increase in the supply of and access to education (Mingat and Tan, 1986; Jimenez, 1989).

It is also claimed by some that cost recovery measures also contribute to improvement in the quality of education, by providing better and serious student inputs into the system, who will be diligent about studies and vigilant about costs, and accordingly demand seriousness from teachers, and educational administrators that results in improvement in internal efficiency of education. It is also argued that any good or service provided free or at a heavily subsidised price, is not valued by the consumers, and cost recovery measures like fees makes the people to appreciate the value of higher education. By making higher education expensive from the students' point of view, the 'baby sitting' role of higher education will be reduced, thereby students' wasting of time in education (McMahon 1988), and their 'excessive consumption' of higher education would be reduced (Stiglitz, 1986, p. 316).

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, higher education institutions become vulnerable to government control and they lose autonomy which is important for higher education institutions to flourish; 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. (see World Bank, 1995).

An Assessment of the Arguments

The debate between the two sides, familiarly known as welfareist *versus* neo-liberal groups, is intensifying in the recent years. How far are the arguments and counter arguments valid? While it may be possible to marshal enough evidence to argue on either side, there are some aspects that stand out very clearly in favor of public financing of education, which are rarely questioned. For example, even those who oppose public subsidisation of education recognise that education produces a huge magnitude of externalities. Even Friedman (1962, p. 86) implicitly agreed that because of externalities, 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: public and *quasi*-public good nature of higher education, its merit good nature, 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 that "publicly financed education is a legitimate end of public activity, even to extreme exponents of 'classical' economic doctrine."

The case against public financing of higher education in the recent years was first developed in developing countries that these countries do not have adequate resources at their disposal, and that the scope for restructuring the public budgets, and thereby for increasing the subsidies substantially to education is rather limited. Now, the argument is no more confined to developing countries, as rich countries too face severe shortage of public resources for higher education. The argument in any place is not an argument *per se* against public subsidisation.

There is a general argument that higher education subsidies are regressive in effect. It is also stated, that public subsidies to higher education accrue to the better-off sections of the society, while those to primary education accrue to the masses and hence 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 favor of the postulate of a significant disequalizing 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” (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.” Further, 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.

Public financing of higher education need not necessarily be regressive. It depends upon the nature, type and kind of public subsidies. It is also shown that the solution to regressive effects of subsidies lies in progressive taxation system, rather than in eliminating or reducing public subsidies. The argument that cost recovery in higher education will reduce income inequalities is based on the evidence that a substantial number of the students in higher education is from higher income groups. But poor students do not come in large numbers to higher education, as higher education is costly: high non-tuition costs of the students, including opportunity costs of higher education, even if tuition costs are nil. Introduction of cost recovery measures would only aggravate the bias in the distribution of enrollments in favour of the rich. Thus any attempt to reduce subsidies would exacerbate this problem further. Moreover, essentially due to public subsidisation of higher education, today higher education in many developing countries is no more elitist; it is somewhat democratised with a large proportion of students belonging to lower socio-economic strata of the society participating in higher education. That cost recovery measures on their own restrict the access to education of the poor, and result in increased levels of inequities in education, is least challenged. For the same reason, the advocates of cost recovery suggest introduction of scholarships and loan programmes along with cost recovery measures to reduce the ill effects. But the ill effects of the cost recovery measures, even if supplemented by scholarships and loans cannot be eliminated altogether.

With respect to the argument relating to the quality of education, it can be noted that as ability to pay and student motivation or ability to learn are not necessarily positively correlated, the students need not necessarily be more diligent

as claimed by the advocates of cost recovery (*see* Colclough, 1991, p. 202).

All the measures of cost recovery are associated with major problems that neo-liberals do not necessarily acknowledge. A major trend in the recent years has been increased efforts on cost recovery through introduction of tuition fee in those societies where higher education used to be provided by charging no fees, and increase in fee rates in others where fees already existed. Though earlier a good number of countries used to provide higher education free, now except for a few countries (e.g., Brazil, Sri Lanka, Tanzania and some east and west European countries) a majority of countries charge fees in higher education, some small and some reasonably large amounts. Even in those very few countries changes are taking place. Tuition fee was introduced in higher education in China in 1997, in Britain in 1998, and in 2001 in Austria. It was to be introduced in Sweden in 2011. Still in a very few countries such as Finland, tuition fee is not allowed in higher education by national constitution. But such countries are very few. Some countries (e.g., India) have also hiked tuition fee selectively to equal the costs, while providing free or subsidised higher education to some or many students. This dual track system of tuition fee is common now in many countries of the former Soviet Union. This dual track of fee system is able to generate as much as 50 percent of the total revenue of the universities in the most recent years in Russia. On the whole, steep increases in tuition fees in the recent past have been the common feature in most countries – developing and even in advanced countries such as US and UK. For example, in China, tuition fee increased between 1996 and 1999 at a rate of 40 percent! While tuition fees alone may not form a significant proportion of income of the universities, fees that include all kinds of charges collected from students, seem to be accounting for higher and higher proportions. For example, in some public universities in India, corresponding figures are found to be as high as 50-60 percent (Tilak and Rani, 2002). In South Korea and Chile all types of student fees in public universities accounted for nearly 40 percent of the costs.

The suggestion for fee reforms – mainly steep increases in fee to a very high rate of cost recovery, is based on the premise that demand for higher education is not fee-elastic and hence increases in fees would not result in decline in enrollments in higher education; and that students, given high private returns, are willing to pay for higher education. Further it is argued that given the inadequacy of public resources, the ‘willingness to pay’ has to be tapped to the greatest extent possible. But steep increases in fees in public institutions are



indeed problematic, as fees are basically regressive in nature. The adverse effects on demand for higher education of the poor are also being felt by many. Strong social protests against fee hikes are seen not only in developing countries, but also in countries such as England. Exclusion of the poor in having education will result in loss in overall equity as well as efficiency of the economy. For the same reason, very few developed countries charge fees above 15-20 percent of costs of higher education, on average.

Loan as a method of financing of higher education was introduced in recent years in many countries such as China and Thailand where it did not exist earlier, and was revitalised in many other countries where it existed with a view to increase the rates of recovery of loan amounts. Several loan programmes were changed into income-contingent loans (e.g., in Australia and UK). Income contingent loans were also introduced in New Zealand and South Africa; and government-operated loan schemes were replaced by commercial bank-operated loan schemes in India.

Loans are slowly becoming popular among students, particularly among those belonging to better-off sections of the society. But loans as a mechanism of financing of education is associated with certain inherent weaknesses, apart from poor rates of recovery. First, in many societies, psychologically, loans in general are not welcome. When needed, poor people may not mind borrowing for investment in physical capital, or other productive sectors that have shorter gestation periods, or consumer durable goods (Maynard, 1975), or even for necessary consumption activities like marriages, but not for 'invisible' human capital formation, whose benefits cannot be identified, if identified cannot be comprehensively quantified, even if they can be quantified, they are not certain, and whether they are certain or not, they flow after a long gestation period. Concerns about increased levels of student indebtedness have both psychological and socioeconomic dimensions, which led to reforms in Sweden where every student over the age of 16 years gets a loan. Further, the view that grants to students need to be preferred to loans is also receiving appreciation in Sweden and other countries (*see* Morris, 1989; Shackleton, 1993). Secondly, loans involve both higher perceived and higher actual personal costs than others (like grants) (Colclough with Lewin, 1993, p. 172), which would affect the demand for education particularly of the poor families as students from lower socioeconomic backgrounds would be reluctant to saddle themselves with debt burden (e.g., as reported in case of Jamaica; World Bank 1993), thus entrenching further the inequalities in access to education. As the Robbins Committee (1963, para 647) warned long ago,

the loans would have "undesirable incentive effects." As Alfred Marshall (1890) noted, imperfect capital markets lead to under-investment in education. As most types of loans require collateral provisions that provide lenders compensation in the event of default of loan, loans may not be available to the poor due to problems of repayment particularly in economies characterised by imperfect capital markets on the one hand, and low standards of living on the other. Though capital market does exist to some extent in some countries, it is not adequate to float educational loans efficiently. It is also feared that student loans would work as a 'negative dowry', and accordingly will have serious adverse effects on enrolment of girls in higher education in not only UK (Robbins Committee, 1963, p. 211), but also in many other developed and developing countries where dowry is an important social phenomenon, and also in those countries where it is not, but husbandal obligations are an accepted phenomenon. Loans also contribute to further increases in tuition and other fees, as loan amounts are related to fees, and might even contribute to vulgar forms of commercialization of higher education. Finally, even in advanced countries, the rate of recovery of loan amounts is very low. The fundamental assumption underlying loan programmes is that higher education is not a public good, nor a social merit good, but is a highly individualised private good, as the mechanism of loans shifts the responsibility of funding higher education from the society to the families, and more importantly within families from the parents to the individual students themselves. This is indeed a dangerous assumption (*see* Tilak, 2009b).

Thirdly, generation of non-governmental resources. Governments began insisting on the public universities to generate resources from 'third parties' such as corporate sector and the community at large. Accordingly, public universities in many countries have developed various kinds of mechanisms of generating funds from the corporate sector by selling their services, mainly consultancy and sale of physical products and patents. Generation of revenues from alumni also comes close to this category, as only those alumni who are well placed in corporate sector are able to contribute to their alma-mater. Corporate sector also finds it convenient to provide research funds to universities and research institutions, if such projects benefit their business. An increasing reliance on corporate funds by the universities may shift the balance of higher education in favour of those activities where the commercial possibilities are the greatest, finally changing even the very character of higher education institutions. Traditional academic disciplines of study and research give way to market-relevant, resource-generating studies. Reliance on corporate



funds may lead to distortions in research priorities and even the research outcomes (Bok, 2003).

Fourthly, privatisation has become the *mantra* of the day everywhere. Many modes of generation of funds for higher education some of which are described above, do mean privatisation of public higher education. More directly, governments in many countries seem to be increasingly get wedded to the neo-liberal philosophy that exemplifies the role of markets in every sphere, and they promote the growth of private higher education institutions, most of which can be described as ‘for-profit’ institutions. The wave of privatisation of higher education has become so strong that even those higher education systems that were predominantly public, began to emerge ‘predominantly private’ in a very short period, making the relative presence of the public higher education sector almost invisible (Tilak, 2006, 2009a). The newly emerging private sector is not based on the principle of philosophy, but on the considerations of profit. As such, they widen inequalities in access to higher education and cause serious damage to the public good nature of higher education. It is also important to note that economies with predominant private higher education systems have not necessarily developed much – educationally or economically, or even socially and politically. Further, privatisation leads to commercialisation. In fact, it is difficult to make any distinction between the two. Both depend on profits, lead to rising costs, and decline in quality (Bok, 2003; Kirp, 2003; and Weisbrod, 1998).

The shifting rationales of PPPs have always been highly dubious. Earlier they were advocated for academic reasons, improvement of curricular relevance and graduate employment. Nowadays it is argued essentially for mobilisation of financial resources and to ease managerial burden on government bodies. Most of the presently talked about PPP models involve transfer of public resources to private bodies, and less public control and accountability. It is widely recognized that public and private sectors have different rather conflicting objectives and hence they are incompatible partners. Hardly any happy marriage between the two can be expected. Most often, the PPPs end up as business deals, between the weak state and the strong private sector, benefiting the private sector more. While risks and rewards are to be shared by public and private sectors under PPP, it is argued that risks are borne by the public sector and rewards accrue to private sector in these deals. In short, they mean that “the public shoulders all the risk, and the private sector gets all the profit” (Stiglitz, 2008; see also Loxley and Loxley, 2010). As the Canadian comic politician Greg Malone puts it: PPPs “should be called P12s – Public-Private Partnerships to

Plunder the Public Purse to Pursue Policies of Peril to People and the Planet for all Posterity.” Moreover, what is *ex-ante* visualized as a middle path, PPPs often end up being dominated by private sector and with an immensely shrunk public sector. The term PPP is used nowadays mainly as a way of avoiding the negative ethos of pulverization. There exists limited robust evidence on well-functioning of PPP modes in higher education.

The use of the estimates on rates of return to education in support of arguments against public subsidies is found to be not proper. First, the high levels of private rates of return may not even sustain themselves 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 in higher education (e.g., see Task Force on Higher Education and Society, 2000, p.39) or even for any sound public policy in 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).

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 (see 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 neighborhood.

In the overall context of globalisation, under the name of internationalisation, many universities have been following aggressive policies of attracting foreign students, and the foreign students are charged fees above the costs, so that they cross-subsidise the higher education of the native students, if not help in making surpluses. It is unfortunate that even some of the best universities of the world, such as Oxford and Cambridge also seem to be adopting the same approaches, con-



trary to what they used to do earlier, viz., offering scholarships to foreign students to attract and promote best talent. In the framework of the WTO, many countries find it convenient further to sell cheap higher education degrees to gullible students in developing countries by adopting different modes under the GATS (Tilak, 2011). Universities are fast becoming entrepreneurial institutions both domestically and internationally.

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 have to be mobilised through a variety of measures (e.g., Mingat and Tan, 1986). Some of them also recognise that public subsidies can increase efficiency (e.g., Arrow, 1993).

Unfortunately, the neo-liberal prescriptions underplay the externalities and the quasi-public good benefits of higher education. Further, Bates (1993, p. 10) argues, cost recovery measures remove the 'social' nature from the economics of social goods. These measures also emphasise the role of market (and price) mechanism, private sector in general, and on the need for reduced role of the state. But the externalities or spill-over benefits of education are indeed are very large. Even if externalities cannot be quantified, it is clear that they do exist (Summers, 1987), and so one should refrain from being dogmatic (Hope and Miller, 1988, p. 40). The presence of educated labour force, increases the productivity of the less educated as well (Johnson, 1984; Lucas, 1988), which is an important externality. Besides, large evidence exists on the effects of education on economic growth, income distribution, infant mortality, life expectancy, health conditions, fertility rates, population control, etc. (Tilak, 2003). Weale (1993, p. 736) argues that these externalities are particularly important in developing countries. In addition, in case of higher education, 'dynamic externalities' (Stewart and Ghani, 1992) may be very important. Higher education adds to the stock of knowledge of the society, which is an important externality. The externalities of education cross over generations. Higher education is also viewed as a major instrument of social mobility in developing countries like India. In short, as Snower (1993, p. 706) noted, "the uncompensated benefits from education are legion."

To conclude, if examined thoroughly, many of the arguments of the neo-liberals do not stand valid. They have neither theoretical nor empirical support. 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."

Summary and Conclusions

Higher education policies have been in a state of ferment in many countries of the world. Conventionally, higher education, including higher professional education, is heavily subsidised by the state in almost all countries. This 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 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. Recent trends in funding higher education are associated with changing perceptions on the role of higher education. As a result, modern approaches begin to replace the long-cherished traditional and time-tested approaches; and business models are adopted in setting and running universities. Private universities, commercial universities, corporate universities and entrepreneurial universities are becoming the order of the day (see Tilak, 2010). The several basic characteristic features of higher education, such as higher education as a public good, merit good, social investment, and as a human right are under attack. In the current wave of market reforms, the long-cherished and well-established role of the State in higher education is being increasingly questioned. Most importantly, the launching of neo-liberal economic reforms in most developing and developed countries of the world has led to shrinking the public budgets for higher education. The reform policies clearly involved drastic cut in public expenditures across the board, including higher education, and introduction of neo-liberal approaches to financing of higher education. Questions are being raised 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 the education sector. Recent evidence shows that many universities are experimenting with cost recovery measures, generating resources from student fees, and other non-governmental sources. The effects of these cost recovery measures on the quantity, quality and equity in higher education could be disastrous for sustainable development of a strong higher education system.

I have presented in this paper a quick review of some of these arguments being made in favor of and against public financing of higher education and restated how important it is for the state to finance higher education. It is argued that significant reduction in public subsidies to education is neither feasible, nor desirable, even if feasible. Basically it has to

be noted that any method of cost recovery restricts demand for education, and as education is a social merit good it is argued that it should not be rationed on the basis of ability to pay by the consumers (Weisbrod, 1988). The traditional methods of funding higher education recognise these aspects.

To conclude, the UNESCO World Conference on Higher Education in 1998, the Report of the international Task Force on Higher Education and Society sponsored by the World Bank and the UNESCO (2002) or the World Bank (2002) policy paper on higher education which underscored the importance of public higher education in national development have not made any significant impact on the policies of the governments or of the international development organisations relating to funding higher education, which tend to forget the golden rule in education, viz., *the best method of financing higher education is financing by the State out of its tax and non-tax revenues*.

In short, it is imperative that the State shoulders a major responsibility in financing higher education. Progressive taxation, and funding higher education out of general tax revenues, may still be the best option. All other sources of finances, including fees, should at best be viewed only as peripheral ones, supplementing public expenditures. Very specifically it has to be noted that increasing reliance on modern methods of funding higher education that are rooted in the market philosophy, may produce regressive effects in the system.

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