CHAPTER 9

Who is responsible for providing and paying for higher education?

Luc E. Weber

INTRODUCTION

Higher education (HE), more than most other goods or services, can be provided either by the public sector or the market. It can be also paid for either by the State (the taxpayers or lenders) or by private interests (individuals, business or other private sources, e.g. foundations). This flexibility is rather unique. Even if is true that no goods or services are 100% public or private, some are basically public (e.g. foreign affairs, defence, fire brigade, etc) and paid for consequently by the taxpayers — or by borrowing — whereas others are mainly private (durable goods, hotels and restaurants, banking, etc) and bought in the market.

This high degree of manoeuvrability with respect to the provision and financing of HE explains the great variety of solutions from one country to another worldwide (with, nevertheless, some established patterns, according to the continent or region). It is not surprising, under these conditions, that the most adequate arrangement for the provision and financing of HE remains in many countries the source of intense political discussion.

This variety of solutions takes many forms; the most relevant are the proportion of the Gross National Product (GNP) spent by a country for Higher Education and the relative share paid for by the State. Table 1 illustrates the situation in a few countries with the sole purpose of showing these differences.

In a time of rapid change, when HE is facing increasing political and business pressure, as well as increasing financial difficulties, the Glion Colloquium

Table 1: National effort for HE and share paid for by the public sector in 2009

	Brazil	Chile	Denmark	Finland	France	Germany	Japan	Korea	UK	USA
HE/GDP in %	0.8	2.5	1.9	1.9	1.5	1.3	1.6	2.6	1.3	2.6
% paid by the State		23.4	95.4	95.8	83.1	84.4	35.3	26.1	29.6	38.1

Sources: *Education at a Glance 2012*, OECD, Paris 2012.

provides a good opportunity to revisit once more the basic principles that could guide policy-makers. Indeed, the fact that the provision and financing of HE allow so many different institutional solutions does not mean — by a long shot — that all solutions are similar, considering the fact that HE is expected to contribute to reaching the supreme objectives of a society and in satisfying two — in general opposed —economic criteria, which are the efficiency of provision, as well as the policy effectiveness, and equity of provision and financing.

In the first part of this chapter, we shall stress that HE has not only a beneficial return for individuals, but has also a collective one, which justifies the fact that it is a public responsibility. We shall also show, from another point of view, that the particular economic characteristics of the service HE provides mean that the effort of studying is not only beneficial to the students themselves, but also to the entire society. In other words, the action of studying induces external benefits. We shall try in the second part to draw from these two findings answers to the questions regarding who can or should provide HE and who should pay for it. We shall conclude that, even if the degree of freedom is large, some solutions are better with regard to efficiency and effectiveness, as well as equity. The reminder of these basic principles can (should) help policy-makers to revisit the policies implemented in their countries and show what strategies can improve them.

WHY IS HIGHER EDUCATION A PUBLIC RESPONSIBILITY?

We shall briefly show from two different angles of views why, in addition to being a good investment for individuals (higher expected income, lower vulnerability to unemployment, richer life), HE is a public responsibility, meaning that the State must have and implement an HE policy. We shall limit ourselves to highlighting two arguments (Weber, 2005).

The collective and individual benefits of higher education

National constitutions describe the highest (supreme) objectives pursued by a nation. Let us quote, for example, article 2 of the Swiss Confederation's Constitution (1999):

Art. 2 Aims

1. The Swiss Confederation shall protect the liberty and rights of the people and safeguard the independence and security of the country.
2. It shall promote the common welfare, sustainable development, internal cohesion and cultural diversity of the country.
3. It shall ensure the greatest possible equality of opportunity among its citizens.
4. It shall be committed to the long-term preservation of natural resources and to a just and peaceful international order.

In substance, the Constitution identifies as supreme objectives of the country the promotion of the common welfare of the people. Common welfare comprises two totally different notions. The first one is material or economic, and therefore tangible. HE is essentially an investment for individuals and the community, which generates individual, as well as collective benefits. The second dimension points at basic societal principles. It refers to these intangible qualities that are also crucial for people's well-being, like the respect of fundamental rights, freedom, tolerance, security and justice, in other words citizenship.

In an era in which economy and finance play a role of overwhelming importance, it is extremely important never to forget that the welfare of a population depends not only on material welfare (in other words on economic growth), but also on many other important intangible values. One concrete consequence of this is that it would be bad policy to drive the HE system exclusively according to the views of the economy and finance. Education and, in particular, HE should also contribute to the satisfaction of these other immaterial objectives, which contributes to individual and collective welfare. This means in concrete terms that:

- Teaching and learning should be focused not only on transmitting professional knowledge, but also geared to developing a broader culture and critical thinking.
- Besides the disciplines more or less directly serving the economy, such as natural sciences, engineering, computer sciences, spoken languages, law and management, universities should also promote philosophy, history, archeology, literature, political sciences and political economy to prepare students not only to work in business or administration, but also to become active and thoughtful citizens (at national and world levels).

But the fact is that it is more difficult to secure the necessary resources to develop or even maintain these "softer" disciplines in a period when globalization is exerting huge pressure on countries to remain competitive and in a time of financial crisis and slow growth. A country's competitiveness depends on the flexibility and dynamism of its business sector and on a light and efficient public sector, but it also depends strongly on the quality of the whole education sector and, of course, the efficiency and pertinence of research. In the short term, some disciplines contribute to a country's competitiveness more than others. But the situation is different in the longer term. There is therefore a trade-off between what seems to be good policy in the short run and what is correct in the long run. Obviously, if the market was free to choose, it would be largely biased in favour of short-term success. Thus, the public sector has a major responsibility to secure a correct balance between the short- and long-term goals of Society and to protect those disciplines that contribute to the immaterial objectives that are important for better citizenship.

The specific economic nature of higher education

Another way to respond to the question of who should provide and pay for higher education is to look at the particular economic characteristics of HE. HE is what economists call a mixed collective good. This means three things:

- First, up to a certain limit, an increasing number of students can benefit from higher education provision without significantly increasing the total cost of provision. One aspect of this can be seen in the important difference of the staff-students ratio from one country to the other, without necessarily impacting significantly on quality. This characteristic might become more important with the development of distance and online learning, because this allows the spread of the cost of preparing a course over a much larger number of students;
- Second, higher education is the source of external benefits, which means that the whole community benefits from the study effort made by students, even those citizens who have not been in any tertiary education institution;
- Third, the providers of higher education service can reserve them for beneficiaries satisfying some conditions. These conditions can be either financial, that is paying a given fee, or qualitative, in particular, the capacity to study. These criteria can even be positive when, for example, a special effort is made to enrol students from disadvantaged families, regions or ethnical groups; but they can also be restrictive, for example if the level of fees becomes a barrier to entry or when restrictions are imposed against, for example, a specific ethnic group.

WHO SHOULD PROVIDE AND PAY FOR HIGHER EDUCATION?

The huge diversity of HE systems across the world turns around the institutional response given to three questions:

- Who is providing higher education? The public sector? A private not-for-profit institution? Or a for-profit one? We are voluntarily ignoring the fact that the organization of production can differ from the organization of the provision. The State can, for example, be responsible for the provision and subcontract it to private organizations: depending on the definition we are using, this might, for example, be the case in England where HE institutions are private, but still significantly financed by the Higher Education Founding Council, which is nothing less than an arm of the Ministry of Education.
- Are there distinct differences of quality related to the type of provider? In more concrete terms, are the public institutions better or worse than the private ones?
- Who is paying? Is studying entirely free of charge or should students pay a fee, and, if so, what should be the level of these fees? Low, moderate or high enough to cover entirely the cost of provision? Moreover, do students receive financial help to cover the fees and/or for their cost of subsistence and study expenses? And from whom? Upon which criteria (their merit or on the basis of some interpretation of the right to study)? And, do they have to reimburse this support afterwards? Finally, who is eventually paying for the total study cost (subsistence costs and fees) for students who do not receive any financial help? The students themselves, who have to work to pay for studying? Their parents? Their grandparents? Or an even larger group, usually within the family? Or, alternatively, do they have to borrow from a specialized institution or even a bank?

Obviously the responses given to these three questions impact on individuals and on Society. We shall now very briefly compare a few distinctive HE systems worldwide and try to draw a few conclusions regarding their efficiency and quality, as well as equity.

Provision

The comparison between systems worldwide regarding who provides HE reveals amazing differences. While private institutions play an important role in some developed countries like the U.S. and Japan, they are still not a serious alternative to public institutions in Western Europe.

Western Europe, where the concept of Universities has been widely developed since the 16th century, counts only a small number of private institutions, even not-for-profit ones (apart perhaps from institutions in the U.K. which are categorized by the OECD as "government-dependent private institutions" (OECD, 2012, p. 252). There are only a few exceptions to this. An important private sector developed in Portugal at the end of last century in response to the slow reaction of the public sector to absorb the demographically and income-related increase of the student numbers. Austria introduced, 12 years ago, a policy promoting the development of a private sector, but its success is relatively modest as only 2% of students study in private accredited universities. Switzerland has many private institutions, but, apart from IMD which is one of the best World business schools, these institutions are not really visible and offer teaching programs in a limited numbers of disciplines, strongly related to business.

In the United States, the German Humbolt University model strongly inspired the development of the higher education system in the 19th century, which became highly successful thanks to public, but even more, to private not-for-profit institutions. It is also in the U.S. that the concept of excellent private teaching colleges developed.

More recently, in post-communist Eastern and Central Europe, the number of private higher education institutions mushroomed — after the transition — in response to the strong demand, in particular for business studies, but also to provide an alternative to a public system which was obsolete and slow to change.

The situation remains quite fluid in the developing world, despite the fact that the World Bank is pushing hard for the development of a private sector, considering rightly that it is the only way to increase the capacity of the sector, but neglecting the fact that the main limitation is the lack of qualified teachers.

Quality

The crucial question of quality is basically an efficiency question, but we find it easier to address it separately. As we all know, there are — everywhere — good, satisfactory and poor institutions, and this more or less independently of who provides or produces the service, the public sector or private institutions. Two cases are sufficient to make the case. At first sight, in countries like the U.S. and Japan, where a strong private sector coexists alongside the public sector, there are good to excellent public as well as private institutions, as well as poor ones. The situation is quite different in Eastern Europe: most of the private institutions that were created after the transition to more liberal regimes are basically mediocre or poor institutions. The level of requirements for students is low and the teaching staff is often insufficiently qualified or dedicated to its responsibilities because they are teaching in many institutions. Finally, before it became a requirement for participation in the Bologna process, the institutions were, for a very long time, not subject to any independent evaluation or accreditation. In conclusion, experiences in different countries tend to prove that the quality of institutions depends only slightly on the ownership status. But, the experience of Austria, which introduced a serious system of accreditation for private universities and programs, shows that today it is not easy to develop from scratch a strong private university sector.

Financing students' studies

The financing of studies, fees in particular, is the other source of large differences between systems. Roughly, fees vary between an order of magnitude of US$100 a year in many European higher education institutions — in particular in Northern Europe — to approx. $50,000 a year in a couple of not-for-profit American universities. Moreover, fees are almost continuously increasing in countries like the US, in private institutions as well as in public ones. This is, rightly, raising serious questions of access. Paradoxically, apart from England, which follows the American model of rapidly increasing fees to compensate for the decreasing willingness of the State to pay for higher education, the situation in continental Western Europe is hardly changing. Even in countries like Germany where modest fees of approximately $1,000 a year have been introduced in a few States (Länder), some States have already abolished them after a change of political majority. Students' fees are even lower in France and there is no willingness to increase them today, although the State is currently in a difficult economic and financial situation. Considering that the fees' question is, almost everywhere, politically very sensitive, it is certainly useful to reconsider the arguments for and against fees in terms of efficiency and equity.

Efficiency

The first and main argument which explains why the level of fees tends to increase greatly in countries traditionally levying fees is that they are an important source of revenue for universities and are increased precisely because the public sector cannot or does not want to increase the financial means allocated to HE. This is obviously the case in the U.S. and in England. Many are however wondering if this policy really brings all the expected additional funds as they suspect the public sector is taking advantage of this increased private contribution to reduce its own. This argument has been strongly put forward by opponents of fees in Germany.

The second argument is that studying is an investment for students, which will bring them more interesting jobs, higher salaries and lower vulnerability to unemployment. Economic studies in general demonstrate this quite clearly, although some also show that it is no longer the case in a few countries with a very high proportion of graduates and probably also graduates in disciplines that are mainly recruited by the public sector.

The third point is that levying fees stimulates the sense of responsibility of both the buyers and providers of education services: students are encouraged to work more effectively to avoid unduly prolonging their stay in a higher education institution, and institutions and teachers are reminded by the students that they have to deliver a good education for the fees the students are paying. Some will argue that good behaviour is a given with teachers being civil servants and with students eager to learn; unfortunately, such an ideal world does not exist, and the price is an effective way to bring more responsibility into the system.

However, the positive private return on investment of longer studies does not justify the proposition that students pay for the full cost of their studies. We have seen in the first section that there are at least two solid arguments against it.

- First, the effort made by students preparing a grade will not only benefit them, but will also benefit all those who have not had the opportunity to study, as it contributes to increasing the general level of skill and knowledge of the entire community.
- Second, in today's knowledge society, investments in human capital are becoming increasingly important compared to investments in tangible capital, such as transport. The private and public sectors and Society as a whole increasingly need qualified people to master the increasing complexity and rapidity with which the economy is changing and to continue innovating in order to remain competitive and to face numerous challenges like sustainable development, internal and external security, political stability and social justice. Therefore, it is shortsighted to charge those studying for the benefits accruing not only to them as well as those accruing to the entire population. This is unfortunately what happens in those private institutions charging very high fees. Being private, they have to balance their books despite public support clearly inferior to the support accruing to public institutions. However, unless training in these institutions is so much better that it compensates for the smaller number of students who can afford to pay, the State has to develop a generous system of grants to make sure that potential good students can also gain access to these institutions, along with the children of more privileged families.

Equity aspects

These efficiency arguments are rather technical and do not retain much attention among the public. The population, and particularly students — paradoxically more so in the regions where there are no or only small student fees — are more sensitive to the equity dimension of students' fees and measures to alleviate their impact on the possibility for students to go to Higher Education. This question has two dimensions.

The first is politico-philosophical. Is higher education, like liberty, freedom of speech, the right to elect and be elected, and basic education, a fundamental social right that should be granted to all citizens? If it were, it could be claimed that every citizen would have the right to study in a higher education institution, whatever his or her capacity to benefit from it and to succeed. To pretend that higher education is a fundamental right is an exaggeration: due to inequalities at birth and/or during childhood, not all adolescents or mature people have the wish and the capacity to successfully follow higher education studies. The real problem that has to be addressed is the risk of barriers to access due to financial or other reasons. The valid equity objective is that no one who has the capacity to engage successfully in higher education should be prevented from doing so. And, if they do not have the necessary financial means to do so, they should be helped, either by receiving a non-refundable grant or a grant refundable later on, when their earnings reach a specified level (Australian and English systems). Alternatively, they should be able to get credit at a very low interest rate. Avoiding barriers to access requires more than mere financial measures. Policies should be put in place to identify those who are capable, but might not be interested in continuing because it is not in the family culture or because their family is expecting, for example, that they take up work as soon as possible in a family business, and to encourage and help them to consider longer studies. Such policies are all the more justified for a Nation in that they contribute to bringing into higher education the greatest possible number of potentially capable students.

The second argument is that — contrary to widespread opinion — free access does not contribute to the expected distributional justice. On the contrary. This erroneous opinion is understandable because fees — if no financial help is provided — are a real burden for students from low-income groups. But, in reality, the opposite is true because: mainly for cultural reasons, the proportion of students originating from the low-income group remains, despite all the efforts made, much lower than those from the middle- and high-income groups. The fact is that there is a correlation between the level of education of the parents and the education ambitions of their children. Therefore, the politically desired income redistribution from the "rich" to the "poor" goes in the opposite direction because the members in the low-income group pay taxes (sales tax or VAT, sometime also income tax), thereby participating in the provision of free (or almost free) higher education for the children of better-off people, who will themselves hold, later on, positions where they are likely to have a higher income throughout their professional life and will be less subject to the hazards of unemployment. To put it more bluntly, workers, whose children leave school at the age of 15-16 are — although modestly — paying for youngsters from middle- or high-income groups, who could much more easily pay for their studies and will most probably earn much higher salaries throughout their working lives. It is only if the proportion of students is the same — whatever the social background — that this undesired income redistribution will end. It is therefore surprising that low- and middle-income groups are so strongly opposed to student fees.

As already mentioned, the fact that student fees are justified on many grounds does not mean they should or can be set at record highs. The principles developed above teach us clearly that only part of the cost of providing a good college or university education should be paid for by the direct beneficiaries, the rest being the responsibility of the public sector for the good of the entire community. This responsibility should clearly be respected by public institutions. But it is also necessary for private universities to pay attention to this as they are part of a system that contributes to the improvement in well-being of the whole country. The best solution is for the State to put in place a generous system of grants to support capable students wherever they study, in a public or private institution.

CONCLUSIONS

We have argued that almost all solutions are possible for the provision and financing of HE. Does this mean that the shape of a national HE system has only a limited impact on its efficiency and quality, as well as equity? Comparisons are difficult because the context is never the same for historical, cultural, political and financial reasons. In particular, we have seen at the beginning that the national global investment effort in HE (public and private), as well as the proportion paid respectively by the State and by private interest, differs greatly from one country to the other. But, even if money plays an important role for the efficiency, quality and equity of the system in place, it is in no way the only determinant of performance. The characteristics of the system also play an important role.

The main purpose of this chapter was to revisit the pros and cons of public vs. private provision and financing. Basically, HE is a public responsibility: it is profitable for a Nation to invest in HE for reasons of efficiency and equity. For the State, it is a continuation of its responsibility to provide elementary and secondary education, as well as professional education. The difference is that State involvement is very broadly considered as an obligation for the first two levels to guarantee that all children have access to basic education, whatever their origin and the income level of their parents. It is coherent to argue that HE is also, somehow, a fundamental right, providing it is made clear that this right is restricted to those who have the ability to study in a higher education institution. The efforts by many countries for political and philosophical reasons to encourage too many young people to go to college is eventually counterproductive as it contributes to increasing the number of failures or impacts negatively on the quality level of higher education institutions.

The fact that Higher Education is a public responsibility is not an argument against the development of a strong private sector, quite the opposite. The main justification is that a developed private sector contributes to increasing the total capacity of the system, which is particularly useful when the State does not, or only slowly, responds to an increased demand of higher education due to demographic reasons or increased expectation from students. Moreover, private investments in higher education also increase the responsiveness of the HE sector to changing needs. It does not follow from these two very positive arguments that a private sector has developed in all countries. It very much depends on the cultural tradition and the circumstances. For example, a private sector developed extremely rapidly in East and Central Europe when these countries abandoned communism and a centrally planned economy. However, in particular in developing countries, there is a real danger that private institutions meet the same constraints as the public ones, the lack of qualified teachers-researchers. Moreover, there is also a risk that many potential students cannot afford to pay the fees levied by private institutions.

On the other hand, there is no guarantee that all private institutions pay enough attention to quality. If in the U.S. there are more private not-for-profit universities than public ones among the best world universities, the poor quality of private institutions is a real preoccupation for the public authorities in many countries. This is certainly the case in Eastern Europe for the reasons we have seen, but it is a risk for developing countries if they do not pay attention early enough to this matter.

The fact that higher education is a public responsibility does not prevent or forbid either public institution from levying fees. However, for public higher education institutions, levying fees should remain an additional source of revenue and should certainly not justify a reduction of the financial support of the State. For private institutions, it is obviously a crucial source of financing as they are less or not at all subsidized by the Public sector.

However, as a matter of principle, fees should remain reasonable as higher education not only directly benefits those in the system, but the whole community. If this principle can be respected in public institutions, very little encourages private ones to respect it as they have to break even or even want to make a profit. The public sector is in most cases not capable of regulating fees, but, as a compensation, it can develop a generous system of student grants to prevent any barrier to entry. There is otherwise a danger that access is restricted, which raises an equity issue. Alternatively, there is a risk of pushing students into a very dangerous path of being deeply indebted at a young age, forcing them to reimburse large sums in their early years of professional and family life. Sensitivity to this equity argument varies strongly from one region to another, Europe being more sensitive than the Americas, Oceania and Asia.

Finally, the main conclusion of this chapter suggests that social sciences and, in particular political economy, offer a solid framework to compare and evaluate HE policies and systems worldwide, and especially the two key questions: who is providing them (the public sector or a private organization — for profit or not-for-profit)? And who is paying for it (the State or private interests)? The fact that numerous solutions are feasible could, at first sight, give the impression that this framework (set of analytical tools) is of little use. This is far from true. These principles offer a solid framework enabling us to compare and evaluate HE policies and systems. They focus upon what counts most for any policy and organization: first, the efficient use of scarce resources in order to maximize the realization of the expected objectives and, second, doing so in the most equitable manner or even contributing to a better distribution of income and wealth.

They derive their analytical power from the fact they are focused on the two most crucial questions raised by any policy or organization: how efficiently and equitably do they satisfy the expected objectives?

REFERENCES

Swiss Confederation Constitution (1999). *Federal Constitution of the Swiss Confederation* of 18 April 1999 (dating basically from 1848). http://www.admin.ch/org/polit/00083/?lang=en

OECD (2012) *Education at a Glance 2012*, Paris

Weber, L. (2005) "Nature and scope of the public responsibility for higher education and research?" in Weber & Bergan (eds) pp. 29-43, *The Public Responsibility of higher education and research*, Council of Europe higher education series No.2, Strasbourg