

CAUSES AND MODELS OF PRIVATIZATION IN HIGHER EDUCATION¹

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Abstract

The world we live in is extraordinarily dynamic and forces us daily to face numerous changes in all areas of life. Although the relationship between private and state property was considered and compared by classics in economics, it is only over the last couple of decades that the privatization processes have become a part of everyday economic life. Privatization reaches all industrial branches and the most recent trend is to involve private sector into public administration. Education system is not immune to privatization either, however, due to its specific nature the privatization processes have to be handled very cautiously. This paper examines the meaning of privatization in education, the factors causing privatization in higher education and how it is implemented. It also looks at the issue of advantages and disadvantages of privatization in education, i.e., higher education.

Key words: privatization, education, private sector, public sector

1. Introductory Considerations

The term privatization is usually used to denote a process of selling shares of a public company's stock to individuals, i.e., private sector. This is a definition of privatization in the narrow sense. However, the term privatization is often used in economic literature in both its narrow and its broader sense. In its broader sense, the term privatization refers to diminishing the role of state in the economy and promotion of methods and policies with an aim to strengthen free market economy.

In a broader sense, the term privatization includes the process of privatization of not just the company but the entire economy. Privatization of economy is defined as

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a process of transformation of state-controlled and run economic system into market system that is firmly and consistently based on the principles of private ownership. In addition to the change in the ownership system, that process also includes the change in the role of the state in the economy and decision making, as well as development of all institutions and regulations necessary for the functioning of market economy based on market competition and free entrepreneurship.²

However, in the late seventies, nationalized industries started to lose popularity in western economies. Disappointment by state ownership started to grow together with perception that public companies are inefficient which brought to initiation of privatization programmes, most famous of which is the one developed in Great Britain during the premiership of Margaret Thatcher. In Eastern European countries, the privatization became an important factor of economic policy after the fall of socialism and recognition of necessity to adapt eastern European economies to market-type economies.

Privatization has become one of the most present trends in the economy in general. It is assessed that over the last 20 years, tens of thousands of public companies have been privatized in market economy countries, and if we add a huge number of public companies privatized through various forms of privatization in former communist countries, that number becomes considerably higher. Perhaps the fact that 30-40 largest takeovers in the history were achieved through privatization tells more about its significance.³ Although privatization is a new age phenomenon, the issue of relationship between public and private ownership intrigued economists even before the process itself existed the way we know it today.

Before starting any kind of process, including the privatization process, it is necessary to inquire about the goals of that process, i.e., in this case, the process of privatization. The main goals of privatization have not changed much throughout history. It can be said that the main goals set before the British privatization programmes by Margaret Thatcher in the 1980s became and remained to be the goals of all other privatization projects. Those goals are:⁴

- Raise revenue for the government
- Improve economic efficiency

² Čučković, Nevenka: Privatizacija – temeljna politika gospodarske preobrazbe zemalja srednje i istočne Europe – doktorska disertacije, Ekonomski fakultet, Zagreb, 2001

³ Megginson, W.L.; Netter, J.M.: From State To Market: A Survey Of Empirical Studies On Privatization, *Journal of Economic Literature*, Vol. 39, No. 2, June 2001, pp. 321-389

⁴ Megginson, W.L.; Netter, J.M.: From State To Market: A Survey Of Empirical Studies On Privatization, *Journal of Economic Literature*, Vol. 39, No. 2, June 2001, pp. 321-389

- Decrease state influence in the economy
- Stimulate wide distribution of ownership
- Motivate competition.

However, we are witnesses that the privatization trend does not stop at companies. Privatization, in its various forms, is present in all spheres of life, even in those in which it used to be unthinkable before. Many services thought of as public exclusively until now, have been directly or indirectly affected by privatization.

2. Privatization in Higher Education – Definition

The definitions we have mentioned so far, define privatization from a standpoint of national economy as well as the standpoint of privatization of companies not considered to be manufacturers of goods, or providers of services considered to be public (school system, health care, public administration, etc.). The term privatization in the public services sector is extremely difficult to define precisely, primarily due to the broadness of the process described by it. Instead of one definition, we offer the following range of definitions:⁵

- a) Engaging the private sector to provide services or facilities that are usually regarded as public sector responsibilities.
- b) Shifting from publicly to privately produced goods and services.
- c) Transferring government functions or assets, or shifting government management and service delivery, to the private sector.
- d) Attempting to alleviate the disincentives toward efficiency in public organizations by subjecting them to the incentives of the private market.
- e) Using the private sector in government management and delivery of public services.

If we wanted to sum up these definitions, we could say that privatization is nothing else but the act of reducing the role of government or increasing the role of the private sector in an activity or the ownership of assets.

As mentioned elsewhere in the text, the trend towards privatization is extremely strong: it is taking place in many countries and within many sectors of the economy. Education sector in general (primary, secondary, and tertiary) often faces pressure

⁵ Higgins, G.: A Review of Privatization Definitions, Options, and Capabilities, The Florida House of Representatives Committee on Governmental, http://leg.mt.gov/content/publications/research/past_interim/defined.pdf, accessed 15 January 2008

to privatize, mainly because it is a large expenditure item in government budget (national or local). The pressure comes in many forms, and it is believed that higher education can be privatized in two ways: ⁶

- a) If students enrol in private schools, or
- b) If higher education is privately funded

In the first case, we can talk about privatization in the real sense of the word because higher education services are no longer provided by the government. In the second case, higher education institutions remain public, but are no longer funded through budget but through tuition fees paid by students, i.e., their parents.

3. Causes of Privatization in Higher Education

In addition to numerous changes the world is facing every day, there are six basic forces spurring the spread of privatization in higher education:⁷

- Growing importance of knowledge-based economy
- Changes in demographics
- Change of public attitude towards education
- The advent of new technologies
- Striving towards knowledge-based organization
- Decline in public trust in the public sector

The first force that is spurring the spread of privatization in higher education is a result of changes brought about by globalization pressures. The unstoppable globalization process has transformed the world economy fundamentally resulting in the rise of knowledge-based economy. Sources of wealth no longer come from natural resources and physical labour alone. The sources of wealth in modern society come from knowledge and communication. This is exactly why the emphasis in today's economies is placed on intellectual capital and people who produce it. As a consequence of that, the demand for higher education is expanding rapidly. Education that is being sought after today is far from the traditional education. Today's buzzword is lifelong education, whereas globalisation has made the marketplace for higher education international. These changes have made higher education appealing to the private sector.

⁶ Belfield, Clive R.; Levin, Henry M.: Education privatization: causes, consequences and planning implications, Fundamentals of educational planning, UNESCO: International Institute for Educational Planning, Paris, 2002

⁷ Levine, A.: Privatization in Higher education, http://www.interactivemusicnetwork.org/wg_educational/upload/higheredprivatization.pdf, accessed 15 January 2008

Changes in the lifestyle and people's habits supported by the development of medicine and general awareness of the need to live healthily caused numerous changes in the demographics. These changes, together with other forces, have also affected the demographics of higher education changing them dramatically over the last couple of decades. The biggest changes occurred in the 1980s and 1990s when students above 25 years of age, women, working adults and part-time students accounted for most of the enrolment growth. Less than a fifth of today's students in the developed countries are full-time students in the traditional sense of the word⁸. For the majority of today's students, higher education is no longer as central to their lives as it was for previous generations of students. Research shows that they want a very different relationship with education than the previous generations. Today's students are looking for four things only: convenience, service, quality, and low cost. They are reluctant to pay for services and activities they do not use.

Public higher education, just as the entire public sector for that matter, is being subjected to increasing public criticism due to low productivity and high cost on the one hand and low quality of leadership and inadequacy of technology used, on the other. This criticism is the best invitation to the private sector which generally sees itself as more efficient than the public sector.

The advent and development of new technologies brings also a considerable growth of capital that needs to be invested. Often, states and local communities cannot provide funds required for investments and it is therefore necessary to attract the private sector.

The question here is what interest the private sector has to invest in higher education. Higher education, similarly to the entire system of education, is perceived to be plagued by inertia and slow to change. However, what might be appealing to the private sector are certainly the advantages created by large and extremely stable cash flow from tuition fees that the state and students pay to higher education institutions. Once they enrol into a higher education institution, students pay their tuition fees for a longer period of time (depending on the length of studies). That stable and dependable cash flow is definitely one of the main attraction factors for the private sector, especially if we take into account that the global higher education market is constantly growing due to the increasing demand.

Private sector also finds appealing the fact that higher education is one of the sectors in which the demand for its services and products takes a different direction from the business cycle. The demand for university enrolments grows if an economy

⁸ Levine, A.: Privatization in Higher education, http://www.interactivemusicnetwork.org/wg_educational/upload/higheredprivatization.pdf, accessed 15 January 2008

is in the declining phase of a business cycle. This seems unusual, but it is easy to explain. If the unemployment rate is growing, people tend to enrol into universities rather than stay unemployed. The demand for university enrolments is counter-cyclical, which is very unusual in business. The enrolment rate is growing when the economy is on the decline because people would rather study than be unemployed. On top of all this, all states subsidize higher education in different ways which makes it extremely appealing to the private sector.

Finally, there is a decline in public trust in government, i.e., public sector. As a result, the trust in non-profit sector is declining and the trust in the profit sector is growing.

On the other hand, according to the International Institute for Educational Planning⁹, factors that drive privatization fall into two groups:

- Demand-side pressures
- Supply-side pressures.

If we talk about the demand-side pressures as a factor driving privatization, there is a simple answer to the question why privatization is taking place: the demand for services of higher education is very high. In many countries, education is viewed as an important way to gain social and economic status, and therefore the demand for higher education is high. If governments (local and central) cannot provide sufficient “quantity” of higher education due to limited budgets, it is only logical that potential students will try to compensate for that shortage by turning to private suppliers. In that case, the demand for private higher education institutions emerges because of inadequate possibility to enrol into public higher education institutions. In addition, many people want a different education from that offered in public higher education institutions and this motivates them to search for alternative higher education service providers. This has caused differentiated demand and as a consequence of such demand there is a need for privatization at all levels of education, including higher education.

If we look at the supply-side, one of the main driving forces for privatization is the decline in the quality of public higher education institutions which is naturally connected to insufficient funds available. Many people are convinced that public schools are inefficient in providing education of the type that is most needed. These people consequently seek alternatives, finding them in the private sector.

⁹ Belfield, Clive R.; Levin, Henry M.: Education privatization: causes, consequences and planning implications, Fundamentals of educational planning, UNESCO: International Institute for Educational Planning, Paris, 2002

In many cases enrolments into higher education institutions have expanded much faster than the funding, resulting in large classes which additionally put the quality of higher education at risk manifesting itself in a considerable increase of the demand for private tutoring. Part of the decline in quality can be a consequence of the fall in per-student funding. Voters who are not parents and who do not attend universities chose not to finance education. If the advantages from education accrue to the individual only and not to the society as a whole (although it is very difficult to measure positive externalities of higher education) those voters will be wondering why they should pay for someone else to gain an economic advantage. Following the theory of public choice, politicians will follow this voting preference and allocate fewer funds to public higher education.

5. Models and Methods of Privatization in Higher Education

In line with what has been said already, privatization falls into three forms:¹⁰

- a) Private provision
- b) Private funding
- c) Private regulation, decision-making and accountability

Higher education can be provided by private agencies, i.e., privately-owned and managed higher education institutions or universities. This means that these institutions need not be government-owned or government-run. Instead, they can be privately owned by entrepreneurs, or individuals, religious groups, charities, non-governmental organizations, or foreign operators. Indeed, many students already prefer private universities and choose to forgo the public education system. Internationally, the proportion of private higher education institutions varies substantially.¹¹ For instance, 11% of school-age children and students in the United States are in private schools, while the proportion of private schools in the Netherlands is 70%. We need to point out here that the Dutch government subsidizes a part of schools fees for those pupils/students. Similarly, Denmark has a system of publicly funded private schools that enrol almost two thirds of all students (most of them are religiously affiliated). The proportion of private schools in Belgium is around 50%. If we talk about higher education institutions in general, there are even greater differences.

¹⁰ Belfield, Clive R.; Levin, Henry M.: Education privatization: causes, consequences and planning implications, Fundamentals of educational planning, UNESCO: International Institute for Educational Planning, Paris, 2002

¹¹ Belfield, Clive R.; Levin, Henry M.: Education privatization: causes, consequences and planning implications, Fundamentals of educational planning, UNESCO: International Institute for Educational Planning, Paris, 2002

For instance, the proportion of private universities in the Philippines is around 75%, while that proportion is almost negligible in much of Europe.

Private funding of higher education is another model of privatization of higher education. That would mean that higher education is funded primarily from private sources (through tuition fees) rather than through the state budget. Often, private schools are supported exclusively through tuition fees paid by students, i.e., their parents; however, it is even more frequent that schools are financed through tuition fees and state budget (cost sharing between private and public sector). All public universities in the United States charge tuition fees (to students, i.e., their parents), but they cover only approximately 50% of the total costs. The remainder is covered by government. The situation is similar in many other countries and we can therefore say that privatization occurs when the proportion of private funding exceeds the proportion of public funding.¹²

Higher education services can be monitored by those who receive the services directly (students and their parents). They will, directly or indirectly, make sure that the education standard is high by doing one of the following:

- They will either stop enrolling in poor-quality schools ('exit'), or
- If they have already enrolled in a school, they will demand a better service ('voice').

Thus, privatization will occur by giving students (as private persons) more control over what goes on in higher education institutions as well as greater choice which school they will enrol in even when all these choices are within public schools only. Privatization replaces the traditional system of higher education performance monitoring (through laws, inspections, and audits) by a new private monitoring system. Guided by this system of private monitoring, students decide which university or school to attend depending on their own preferences.

On the other hand, the range of direct methods and ways of privatization is huge. Here are some of them:¹³

- Introduction of educational vouchers

¹² Tsang, M.: Comparing the costs of public and private schools in developing countries. In Levin, H. and McEwan, P. (eds.) Cost-effectiveness studies in education, Yearbook of the American Education Finance Association, 2002

¹³ Blaas, W.: Privatization of Education: a framework, Paper prepared for the PRESOM workshop on education privatization, 29 June 2007, Ljubljana, Slovenia, http://www.raumplanung.uni-dortmund.de/irpud/presom/fileadmin/docs/presom/external/Ljubljana_Conference_June_2007/Blaas.pdf, accessed 16 January 2008

- Introduction of options to choose among different public and/or private providers of education services
- Liberalization of regulation of education services
- Contracting out of specific (additional) services (e.g. catering)
- Introduction of tax credits and deductions for educational services
- Granting subsidies and assistance to private schools
- Introducing the option to choose home-schooling
- Increasing competition between schools and education agencies.

According to the evidence which has been produced by the UNESCO study, education privatization seems to be dominated by the introduction of school vouchers and the introduction of options to choose among different schools (school providers).¹⁴

6. Conclusion

If we consider privatization from an economic point of view only, the starting point of any analysis should be the analysis of arguments pro and against privatization in general. Arguments in favour of privatisation include *inter alia*:

Privatization saves governments money in the process of providing public services,

- Privatization provides for speedy implementation of different programmes,
- Private sector in a large number of branches means better quality of services,
- Involvement of private sector is essential when public sector lacks the expertise and sufficiently qualified personnel to carry out specific projects,
- Private sector uses more advanced and innovative technologies,
- Privatization usually means solving the problem of inefficient state monopolies,
- Private sector is much more flexible and hence its services are much more efficient,
- Privatization slows down the growth, i.e., decreases the proportion of the public sector in the overall economy,

¹⁴ Blaas, W.: Privatization of Education: a framework, Paper prepared for the PRESOM workshop on education privatization, 29 June 2007, Ljubljana, Slovenia, http://www.raumplanung.uni-dortmund.de/irpud/presom/fileadmin/docs/presom/external/Ljubljana_Conference_June_2007/Blaas.pdf, accessed 16 January 2008

- Privatization brings motivating competition between government employees and private company employees,
- Privatization is a good alternative to traditional ways of improving public sector productivity.

Arguments against privatisation include *inter alia*:

- Privatization does not guarantee lower budget expenditures,
- Privatization does not guarantee market competition and can create private monopolies,
- Privatization encourages corruption,
- Privatization causes states to lose control over privatized services,
- Privatization diminishes responsibility of the public sector,
- Private sector's aspiration for profit and governments' aspiration for general well-being do not always correspond completely,
- Privatization is not the only way to improve public services productivity,
- Private sector may compromise the quality of public services because of the profit motive,
- Privatization lowers motivation of state employees and contributes to their fear of displacement,
- Private sector does not take into account economically marginal groups and individuals.

Nevertheless, education is not just an ordinary one-off service. Education is not just the transfer of information and knowledge from teachers to students. Education is what shapes each individual society and determines its future to a large extent. Through education system, individuals learn how to survive in a global world and become successful members of the society. Education is definitely one of the most important public goods and a generator of an extraordinary stream of positive externalities. These are the very reasons why it is necessary to consider the issue of privatization in higher education from different points of view, not just economic.

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