

## Marketization of Higher Education

- Trends, Issues and Prospects –

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In the mid-19th century Karl Marx wrote: “A spectre is haunting Europe — the spectre of communism.” At the dawn of the 21st century one may observe that another spectre is haunting the world, and at this time its name is marketization. Higher education is hardly escaping from this spectre. How are the growing influences of market forces changing the shape of higher education? What are the backgrounds and how far will it go? What are the consequences? These are the questions that the research in higher education has to respond to. In this paper, I try to outline a framework on which the issue is set and analyzed. After reviewing briefly the relation between the state and market in the history of higher education (Section 1), I will set forth a framework on which market forces in higher education are categorized and analyzed (Section 2), and from that perspective discuss some of the major issues with marketization (Section 3).

### 1. Modern University and the Market Forces

Before discussing the influences of market forces, it will be useful to digress on how the modern university has developed in relation with market and state in historical context.

#### Original University and Market Forces

It is important to note that the university in its conception was created by market forces. On one hand, there was demand for knowledge from potential students. On the other, there were potential teachers who would provide the service of teaching. But the potential demand and potential supply were not sufficient for realizing the actual transaction between the supply and demand. The original universities in the medieval periods were made possible either by organizing the students (Bologna), or by organizing the teachers (Paris), in the form of Guild, or *universitas*. The latter form, the guild of teachers, became the main form of universities in subsequent periods.

The organizational framework of guild provided the basis of transaction between supply and demand in three important ways. First, it provided a basis of economy of scale and economy of scope. The resource of a teacher could be shared

by many students, and the students could benefit from a number of teachers who provided different kinds of knowledge which in total would become a set of meaningful learning. Second, universitas as a guild was given by either the Catholic Church or by the State the right to issue academic degrees in the form of Charter. The officially recognized academic degrees provided the basis for the transaction of a set of knowledge, which is intangible and difficult to evaluate.

By generating these functions the framework of classical university model served the purpose of production of higher knowledge through the medieval periods and the subsequent periods.

### Emergence of State and the Modern University

The classical model of university faced serious challenges with the rise of the modern nation state in the late 18<sup>th</sup> and the early 19<sup>th</sup> century. With a wide agenda and pervasive power, the modern state had to takeover many old institutions, including universities. The modern university was born from the struggle between the modern state and the tradition of classical university. The process created three proto-types of the modern university.

First was what I call the “State Facility” model of universities. Berlin university, or the Humboldt University, was created as a facility, and a symbol, of emerging Prussia. Based on the ideal of “Cultural State,” the government was designated to promote the academic pursuit of truth, which was assumed to provide the purpose of the national and individual life. Creation of the university was therefore one of the focal mission of the government, and therefore established and supported by the government. At the same time, the pursuit of knowledge had to be undertaken for its own sake, and therefore academics had to be given absolute freedom in their academic activities. The university was a state facility and, at the same time, an autonomous guild of academics. The duality involved a severe contradiction. Nonetheless, it provided an ideological basis that the government intervene higher education and research by investing heavily for the facility and the organization, while allowing academic pursuit for its own sake. This ideological construct proved to be very successful in promoting modern science.

The second was a “Civic Corporation” model. When the medieval university was transferred to England, it was transformed into colleges in Oxford and Cambridge. Over time they accumulated endowed funds, which were governed by not just the academics but also by the lay members. This model was then implanted in colonial America, where colleges were created through

contribution of endowments from elites of the colonies. Typical of this model was the college in New Haven organized as the Yale Corporation, which was based on endowments and governed by members entrusted to oversee the uses of endowments. It was unclear, however, whether ownership of the corporation belonged to the colony or to the trustees until the Dartmouth Case of 1817. It established the principle that any group of individuals with a set of funds can constitute a legal person for achieving public causes. This legal construct provides the basis of private institutions of higher education in the U.S. and in some other countries including Japan.

This model of university was autonomous from the government as the institution as a whole, but inside the university, control was in the hands of the board of trustees.

Between the two models of modern university, a third model which I call the “State-Commissioned” model was created in the late 19th century. In the United States, a number of land-grant colleges and universities were created. Based on a grant from the Federal government the state governments provided the capital outlay and running costs, but the university was governed by an independent board of governors. The interest of the government was represented by the board members appointed by the government, which normally constituted the majority. In the Britain, the Civic Universities were created in the 19th and the 20th century. These universities were largely dependent on Government funding, and yet governed by internal governing bodies which were controlled mostly by academic members. In both cases, the universities were independent of the government, but were given basic resources for their services. Even though it was not necessarily clearly stipulated, there were latent contracts between the government and the universities on the provision of resources and production of services in the form of research and education.

### Growth in the Roles of the State

While the three models provided the prototypes of the modern university, all the three models of university underwent critical transformation in the late 19th and throughout the 20th century. This time the major driving force was the increased role of the state due to the extended agenda of the government in the society. There were three important spheres.

First, the state took an increasingly active role in promoting industries. One area for the government to play a role was through training human resources

for the development. Second, universities became a critical point in producing modern scientific knowledge. The state tried to promote it to create military force, and then increasingly to foster the basis of industrial development. Third, the state became responsible to promote equity in social opportunity. Since higher education became critical in achieving individual wealth, establishing equity in the chances of receiving higher education became one of the significant goals of the government. For these three reasons the state had to intervene higher education.

Partly because of the increasing support from the government and partly because of the industrial development and increasing aspiration for attaining higher social status among the public, the demands for higher education grew steadily. It brought higher education from the opportunity limited to elites to the opportunity open to the masses. Further, higher education became a social opportunity universally available, irrespective family background, academic ability or age.

It should be also noted that this process of massification and universalization of higher education was accompanied with the expansion of the concept of higher education from that of the university model to the large sector of “non-university” institutions. Higher education thus became a huge entity, with the traditional universities at its core, and various non-university institutions at the peripheral. The state had an important role in this respect. The government established and financed a large number of non-university institutions. At the same time, the state controlled the legal framework to organize all higher education institutions into a “system” of institutions, where types of institutions were clearly distinguished.

#### Limits of Government Intervention

The higher education thus created has seen increasingly serious challenges in the recent years. It is not necessarily that the role of the state is questioned generally by the neoclassical economists. There are three intrinsic problems to higher education.

First, the development based on State support increased the financial requirement steadily with massification and universalization of higher education. Moreover, as the drive towards knowledge society gain momentum the expectation on universities increases both in research and education. On the other hand, the government faces serious fiscal stringency as the demography shifts to older age groups that demand greater social spending. At the same time, governments are

pressed not to increase the tax burden which may induce negative effects on the economy under fierce global competition. This creates a serious gap between the financial needs of the institutions and the fiscal capacity of the government. Also, because of the competition for the funds, the need for accountability becomes critical.

Second, as the knowledge economy prevails, the knowledge and skills required by work becomes more diverse and change quickly. At the same time, the choice over life and work becomes more varied. The needs for research become more varied. The basic premise of the modern state had been that the government is able to perceive the social needs for education and research, and then translate it into government action, including designing and supporting the higher education system. Government budget is the expression of the logical construct of such a premise. But under the circumstances, this premise is no longer held unquestioned.

Third, as higher education becomes closely knit with the society, the principle that links the society and higher education institutions has to undergo a fundamental change. The traditional premise had been that the universities embraced academic pursuits that were not understandable to the layman. The running of higher education institutions had to be left to the university itself. The society respected the authority and entrusted its activities to the experts themselves. However, when the costs to the society become enormous and the product more critical to the wellbeing to the society, such a trust is no longer considered sufficient. It is sometimes considered a social injustice in the form of self-indulging academics enjoying unjustified privileges. The alternative is to assure a fair transaction – between what is demanded and supplied at a fair price. The transaction encourages competition both in the supply and demand side, and that brings out social optimum in resource allocation. The rewards would then be justified on the ground of efficiency.

#### Quasi-Marketization and Marketization

These factors collaborated to bring about decline of the role of the State in higher education. In response to the difficulties, various countries instituted reforms. One strategy is to make the universities of State-Facility and State-Commissioned models to be more independent from the government in one way or other.

One example is British universities, which went through substantial

reforms since the 1990's. That involved evaluation of research performances, and funding for universities under a clarified rule. At the same time, the governance structure was made clear. In the United States, an increasing number of State governments are trying to link state allocation of funds to assessment of performance. There is movement to establish written contract, or "compact," stipulating the conditions under which the government subsidizes the state universities.

Similar development can be found with the State-Facility model. In France, the subsidy from the government had to be specified in a contract. Achievement of such a contract is then evaluated, and the evaluation is reflected on budget allocation. In 2004, Japanese national universities were incorporated into National University Corporations (OECD 2003). Under the new scheme, the government and each university agree on a "Mid-Term Goals and Plans;" towards the end of the Mid-Term period of six years the government will evaluate the degree to which the goals are achieved; and based on the evaluation a new Goals and Plans will be set.

These schemes share a similar principle: the government and each university strike a contractual agreement in which the subsidy from the government to the university is determined contingent upon the performance of the institution. From the perspective of historical development in the relation between state and university, the new scheme can be interpreted as a partial reintroduction of market mechanism. The state can be considered as the sole user of the services provided by the university. The state pays the price to the university in the form of subsidy. The price is negotiated between the state and the university. In this sense, the arrangement can be called "quasi-marketization."

The contract-evaluation scheme involves a number of intrinsic problems. One issue is the scope of the contract – in normal government services the goal can be specified in a simple set of numbers or indices, but it is impossible for the universities that include a number of activities. Evaluation of performances in education and research is another serious issue – to the extent that the evaluation has to be comprehensive and robust, the cost required for evaluation becomes enormous almost to the level that can be prohibitive in practice. It is also unclear to what extent the achievement should be linked to rewards and punishment. Ultimately, is it possible to allow public university to cease function if it fails to satisfy its contract with the government?

This question is closely related to the problem of whether the state should

remain as the sole principal, representing the needs of the society, for the university as an agent. If the government does not have enough resource to support the university or the justification for representing the social needs, this premise should be questioned. In fact, in many countries, the introduction of contract-evaluation scheme is accompanied, with some time-lag, by introduction of market mechanisms beyond the contract.

## 2. Dimensions of Marketization

The decline of the Welfare state in supporting higher education brought about increases in the influences of market mechanisms. There are three major dimensions in the influences: Market for the service of education, market for research and the capital market for establishing and supporting higher education institutions.

### Education Marker

The first market that the universities face is the market for the services in providing education.

#### *Dependence on Tuition*

One salient trend in higher education in the world is the increasing dependence on tuition revenues. This can be interpreted as a transaction between the university and the students for the services provided by the university. In Germany, where universities charged only nominal registration fees, charging tuition has been a highly controversial issue.

While universities of the State-Facility model charge have historically charged nominal or small amount of tuition, they started raising tuitions. In Japan, the tuition of national universities have been relatively low, but the level has been raised in the recent years. Moreover, after incorporation individual universities are allowed to set their own tuition level.

For universities of the State-Commissioned model, the government cannot directly control the tuition level, but practically the government pressured the universities to keep tuition at low levels. In the U.K., the government proposed to charge tuition with a deferred payment program. Each institution will be allowed to set its own tuition level. The American State universities have been raising their tuition levels for the last twenty years. Many state universities are given freedom to set their levels of tuition. As a result, public universities in the U.S.

have been increasingly dependent on tuition revenues (McGuinness 2003). While it is particularly apparent with such constitutionally defined institutions as the University of Michigan or the University of California, the same trend can be found in many other institutions. Moreover, less autonomous public institutions are now given the authority to retain the revenue from tuition rather than transferring it to the State treasury.

Private institutions traditionally had relied on tuition revenues, even though their proportion varied widely by institution. American institutions of higher education have been steadily raising their tuition levels since the early 1990s. There can be various explanations for this phenomenon, but it suffices to note at this point that the market does not necessarily reflect the relation between macroscopic supply and demand (Massy 2003). In Japan, private institutions have been raising their tuition levels since mid-1970s.

#### *Marketing and Pricing*

Another trend in the market of educational opportunities is that it functions as full functioning market with the price reflecting demand and supply. Even though technically private institutions of higher education set the size of enrollment and tuition level, just like other enterprises selling their services at certain prices, their behavior actually has been more complex than regular industries. As they have endowment, they are not required to pay rent. At the same time, given their non-profit status, they are not able to make profits. Under these circumstances, private institutions have not been considered to behave as regular enterprises.

In the recent years, however, private higher education institutions in the U.S. have begun to behave more like regular industries. They have raised tuition, probably because there are demands for high quality education in the market. The economic premium attached to high quality in undergraduate education is rising. At the same time, private institutions had aggressively tried to attract academically superior students by offering institutional scholarships. In order to achieve this, they have had to raise the face-value of tuitions. More generally, many private institutions are employing marketing techniques to attract students. The only difference from the regular industry is that they are seeking to maximize prestige, rather than profits. Nevertheless, they have to face fierce competition..

In Japan, private institutions have been endowed with small amount of basic funds, and therefore have had to rely on tuition. Therefore, these institutions have had been in competition with other institutions for long years.



Nonetheless, competition had been limited under persistent excess demand for educational opportunities. In the postwar period, the for higher education grew rapidly, and since the mid-1970s the government controlled expansion of sitting capacity in the urban areas. In this regulated market, private institutions have been able to raise their tuition consistently. Towards the 21<sup>st</sup> century, however, the number of 18-year olds will shrink substantially, thus creating a situation of excess-supply in sitting capacity. Under those circumstances, private institutions in Japan will be forced to face bear pressures from a competitive market.

### *Non-traditional Market and Modulisation and Standardization of Education*

With universalization of higher education, the market of higher education expands to cater to the needs of adults and transfer students. In the United States the expansion of the adult market can be traced back to the 1970s, when enrollment of fresh high school graduates started declining while female high school graduates in their late 20s started enrolling in higher education institutions. Since the 1990s, new types of institutions founded by business firms were established. These institutions mainly sought to serve working adult learners who wished to acquire job-related knowledge and skills.

These non-traditional students are different from the traditional ones in various respects. Since they are employed, they need to take courses in a time and location that suit their schedule. Learning through the Internet becomes a useful means in this case. Many enroll in higher education institutions to obtain a particular set of knowledge and skills rather than an academic degree. In order to respond to these needs, universities design various modules containing a set of pertinent courses.

To the extent that the courses and modules are designed to provide well-defined knowledge and skill, the courses can be standardized in their contents and format. The course design and textbooks for a course can be prescribed by specialists and an individual teacher can concentrate in delivering such design. The use of e-learning can be a powerful instrument in this respect. Teachers do not need to have advanced knowledge in that area.

Traditional universities can offer these courses aside their regular courses. But it is the for-profit institutions that can best fulfill these needs and make profit from it. Standardization of a course may involve certain initial development costs, the cost of instruction can be reduced if the course reproduced at various locations. Since the teachers are not required to engage in advanced research, the institutions

do not need to have the facility for research. They can be hired on the part-time basis. Moreover, the lack of commitment in hiring makes it easy for the institutions to shift the field of courses with the changes in the demand. In these senses, for-profit institutions are able to exploit the opportunities created in the new market.

## Research Market

The second market that higher education institutions are affected strongly is the market for newly created knowledge.

### *Competitive Funding*

The past success of the State Facility model was that it enabled the government to invest on the necessary facility and human resources for research while avoiding intervention in the content of research itself. Provided with these conditions, research activities were propelled by the logic of science and implicit competition for academic achievement. This model has been questioned in recent years. One of the sources of malfunctioning is the limit of government resources, forcing the government to reduce its financial commitment to research in universities.

One trend arising from this problem is for the government to be more selective in distributing subsidies to institutions. For example, in the UK, government subsidies to universities had to be curtailed in the early 1980s due to financial crisis. In order to force the reduction, research activities at individual departments were evaluated, and the government terminated subsidies to the departments receiving poor evaluation. In later years, the government developed “Research Assessment Exercises” and linked the results to subsidies.

Another trend is to shift the government funds away from institutional subsidy to the awards to specific research projects after competition. In the United States, project-based funding has been the major vehicle of research funding mainly because of historical backgrounds. Since higher education was constitutionally designated as the domain of the States, it was natural that the federal funds were not integrated into institutional subsidy. In many other countries, however, the major vehicle for research funding has been institutional subsidy. But, this is now changing. In the UK, the government took the “Dual Policy,” in providing research funds in both institutional and project-based funding. In the early 1990s, however, the government made a clear policy to transfer a substantial part of institutional

subsidy to project funding. In Japan, similar trend has been observed for past twenty years, and lately the Science and Technology Council, an advisory organ for the Prime Minister, has proposed to shift a substantial proportion of the subsidy to the national universities to project funding.

These trends represent the shift in the role of government from that of sole sponsor to one of the consumers of the result of research. From this perspective, incorporation of the national university was a necessary step. If the government wished to remain responsible for the whole function of national universities, the government had to provide the necessary cost under total budgetary control as is written in a separate line. Any other government agency cannot divert funds from other line.

#### *University-Industry Link*

The second trend is marketing of the results of research.

The modern university assumed the principle that universities undertake basic research based on academic logic, while the industries apply the basic research to commercial purposes. Due to the lack of immediate return, the basic researches undertaken by universities have to be supported by the government or philanthropic organizations. Such logic underwent considerable changes in recent years. Under the fierce global economic competition, governments sought to ensure the results of basic research be used by national business firms. Moreover, the distinction between basic and applied research has been increasingly blurred. Knowledge accumulated in universities may have potential application.

Since the 1980s there have been a policies in the industrialized countries to encourage the cooperation between the academics in universities and business firms. In the U.S. the Bayh-Dole Act of 1980 was a landmark. Through this act intellectual property obtained by federally-sponsored research was designated to belong to the university. The university can sell the property to business firms. Many universities established a Technical License Office, Patent Office or similar organizations to strengthen the link. Similar attempts were made in many other industrialized countries. Japan, for example, enacted a similar Law in 1999.

The rationale for these policies is three-fold. First, the government wished to protect national interest by clarifying the ownership of the knowledge. Even though ownership is given to an individual university, the national economy will benefit in so far as the ownership is transferred to business firms inside the nation. Second, since the universities are given the ownership of knowledge, they seek to realize benefit from the ownership. They establish TLO and Patent offices to

market the knowledge developed within the university. This will generate new businesses. Third, the opportunities opened through such practices create an atmosphere among academics to respond to the needs in the market.

Another trend is the expansion of Contract Research. Universities sell the resulting knowledge and outside industries buy the knowledge at a certain price in such forms as licensing fees. More generally, a research unit and a business firm strike a contract stipulating that the business firm provide certain amount and in exchange a proportion of research results will be offered to the firm. In this sense what are exchanged are the knowledge in the future.

### Capital Market

The third market that universities have to face deals with capital and investment. The modern universities, especially those of State-Facility or State-Commissioned models, were made possible by investing government spending. In other words, a part of national income was diverted into higher education through the tax system. The past twenty years, however, have seen the limits of tax revenues with increasing fiscal demands from various activities of the state. As a result, many countries ran into fiscal deficit, which has been financed by national bonds. Due to the potential loss of fiscal discipline, many governments tended to separate various government activities from the government, and leave those separate bodies to finance necessary costs and investment. Higher education is one of the areas.

#### *Loans for Students*

One area capital counts is the individual financing of college costs. In the modern university, the cost of college was supposed to be borne by the family or by the government. The government can subsidize students through either institutional subsidy or through economic aids to individual students. Such an approach have been claimed to be inadequate based on two arguments. One is that the expansion of higher education stretched out the resources for higher education. Second is that, since the students will benefit from higher education in the future, they are obliged to pay for the costs.

In the United States the federal government went into a substantial student aid scheme through revision of Higher Education Act of 1972. The federal student aid was extended in later years, adding loan schemes with various degrees of subsidy. After the Reagan administration, a substantial proportion of grants

were replaced with loans that carried higher interest rates. In Japan, the government student aids were interest-free loans. In the late 1980s, loans with interest were introduced and the proportion of such loans increased substantially in recent years. In Australia, a deferred payment scheme called “HECS” was introduced. The UK is going to implement similar system in near future. Lately, commercial loans for education have been expanding in the U.S.

Through these schemes, students are borrowing from the capital market. Governments are subsidizing these schemes by paying for the gap in the interest rate and for the risk premium. Some governments, including the U.S., the U.K., and Australia, are attempting to reduce the risk premium by linking the repayment scheme to the national Income Tax collection.

### *Rented Capital*

The other area where capital market emerges is the borrowing of higher education institutions. Modern universities were given land, buildings and facilities either by the government or by a philanthropist. Under the fiscal trends described above, higher education institutions have had to finance necessary investment costs from capital market. There are steps in this direction.

One is where the government issues a bond or borrows from the capital market for the purpose of investment on higher education institutions. One of the underlying rationale is to smooth government expenditure over time. Also, it can be argued that the investment on higher education institutions would eventually increase tax revenue. At any rate, the government is responsible for the repayment. In the U.S. various state governments issue bonds in this way. In Japan, the government had borrowed from the Postal Savings Funds to invest on the facilities of national university hospitals.

A second form is where universities themselves issue bonds. The university that issued the bonds will be responsible for repayment. The underlying rationale is either the necessity to avoid concentration of expenditure on one fiscal year or the argument that the investment will produce benefit in the long run. In the latter case, it is critical that the benefit of investment will accrue to the university itself.

In the U.S. both public and private institutions are issuing bonds. In fact this is a growing market of investment, with security-evaluation services such as Standards & Poors issuing industrial analyses report. In Japan, private institutions regularly borrowed money from banks during the age of expansion in

the 1960s and 1970s. Since then their strategy has shifted towards internal financing. Recently, however, the regulation on issuing bonds has been removed and a few institutions started issuing bonds to build new organization and buildings. With incorporation, national universities are allowed to borrow funds, but the necessary conditions have not been fully stipulated yet.

The third variant is outsourcing and Private Finance Initiative (PFI). For example, a private company builds a dormitory and collects returns to the investment through charging fees from the users. Even though the facility is considered to be a part of the university facility, it is built and managed by an outside firm and financed by their own capital. Higher education institutions are outsourcing services to business firms. Such services used to be cafeteria services and bookstores. Now there are industries to develop some course wares directly related to the contents of the classes. Some of the firms catering to these needs are becoming large industries.

#### *Creation of Benefit and Ownership of Institution*

A natural extension of the trend of increasing roles of capital market is for a business firm to establish its own university based on the funds they collect either in stocks or by bonds. This is the “for-profit” university. In the U.S., for-profit institutions have now established themselves in higher education. In Japan, a few for-profit institutions have started operation.

The for-profit institutions are radically different from any type of modern university. Private institutions of higher education, as is conceived in the U.S. or Japan, are established as a civic corporation to serve the public purposes. Private citizens donate funds for this cause, and for that reason the government provide tax exempt status. In contrast, for-profits are created by the borrowed funds from stock-owners, and they are responsible to create sufficient returns to those investment. To the extent they provide sound education, it serves the public service, but the rationale of their existence is based on profit.

The organization of for-profits departs sharply not only from the modern universities but also from the prototype of classical universities. Combination of research and education, coexistence of different disciplines, the power given to the faculty in deciding the contents and curriculum of education, and the principle of participatory decision making are all gone. These institutions claim that in so far as they provide the same service as the traditional universities, they should be called universities, and the degrees that they give should be respected as the

equivalent of those from traditional universities.

### 3. Issues and Prospects

The discussion above showed that the influences of market factors have grown in various aspects of higher education. Given the magnitude of the potential influences, one may argue that marketization becomes a new analytical paradigm, just as “massification” did some years ago. The difference is that marketization is not related to such clear quantitative indicators as enrollment rate. Students of higher education have to start from how we define it as an analytical issue. I think that there are three important issues: the degree to which marketization is proceeding in different contexts, the changes that it made possible, and the potential problems that it will create.

#### Differences by Country

The first set of questions asks how far and in what form marketization is taking place in different countries. If marketization makes an analytical paradigm as “massification” did in the past, one of the critical differences from it is that it can not be related with a clear quantitative indicator as massification did with enrollment rates. The trends will be identified only from analyses from that perspective.

One clear point about marketization is that it is most advanced in the U.S. In most of the aspects listed in the previous section, the U.S. presents the most radical case of market intervention. It is related to the historical backgrounds and institutional construct of American higher education. American private universities, of the civic corporation model, are more flexible than the universities of State-Facility model in various aspects. Since it is ultimately the decision of the Board of Trustees the institutions will exploit market mechanisms when necessary. For public institutions, the introduction of market mechanisms may run in counter to the public mission that these institutions are given. Fundamentally, the compromise requires revision of the implicit compact between the public universities and the public. To the extent that the institutions are given autonomy from the state government, the reality may precede the logical question of public mission and the economic reality. Second, while higher education is administered by state governments, the federal government has a large budget for higher education. This arrangement provides a basis for competition among state governments, while leaving substantial pockets where governmental regulations do not intervene. Third, there is a strong cultural tradition, supported by the tax



system, for individual contribution to public causes. Curiously, the existence of altruistic behavior supports the advancement of competitive behaviors for self-interests.

In the European countries, marketization appears to be less successful. There seems to be a few reasons. First, in most of the countries the universities belong to the State Facility model. The design and underlying logic contradicts sharply with market forces. Second, in most countries the central government administers higher education. The introduction of market forces requires a totally new concept, and that tends to cause enormous political controversy. Third, in each country there is a broad social contract that regulates social equity, profession and education. Higher education constitutes one of the pinnacles of the contract, and marketization breaches some of the fundamental principles underlying the social contract.

In these regards, Japan seems to be standing somewhere between the U.S. and Europe. While its national universities belongs to the State Facility model, the existence of the private institutions has always created pressures to reform the national universities to stand at the same conditions as the private institutions. Even though the national government administers higher education, the fact that it controls both the national and private institutions has created difficulty: the government has to explain why they provide subsidies to the national institutions and no funds to the private institutions. Moreover, protection of the national institutions is becoming less defensible if training of human resources in science and technology was deemed to be the key to economic growth. The marketization logic may come in relatively easily in this circumstance.

An interesting case from these perspectives is that of China, which is arguably at the forefront in marketization of higher education. Even though its higher education system belongs to the State Facility model, the government allowed private institution in the late 1980s. More recently, the government allowed the national universities to spin-off higher education institutions that will become private institutions. The “Reform and Open” policy allows a range of radical social organizations that may sharply depart from the traditional patterns. Second, even though it is a tightly controlled society in many respects, the control of higher education is complex. While the national Department of Education administers higher education, provincial governments have considerable degrees of control and support. Moreover, the communist party has its own line of control on higher education institutions as on any other social institutions. On the other

hand, the rules governing higher education institutions are not clearly written in explicit terms. As a result, there are rooms for individual institutions to introduce reforms, which is in many cases related to introduction of market forces. Third, the public appears to be concerned more on expansion of social opportunities rather than on equity and fairness.

Will marketization proceed in other parts of the world? Will marketization in other countries take the same form?

## Achievement

It was stated at the outset that marketization is called upon due to the inadequacy of the state in fulfilling the needs for higher education in the emerging era of knowledge society. To what extent then is marketization meeting the expectation, and to what extent should it proceed further?

The first and foremost reason that marketization had to be called for was the gap between the growing financial needs for higher education and the limited resources that the government can spend for higher education. Then, how far can marketization bring resources into higher education?

Past trends in the U.S. seem to indicate that marketization has indeed increased the resources for higher education. The increased tuition levels at both private and public institutions should have brought in substantial revenues to the higher education sector. For-profit institutions report substantial revenues. Universities also report incomes from joint activities with industries. It should be noted, however, that these increased revenues may incur some additional costs. Particularly, the revenues from cooperation with industries involve considerable costs. Moreover, the additional incomes are based on government funds or voluntary support. These points raise an analytical issue on the degree to which market revenues can grow and government funds can be reduced.

Second rationale for the introduction of market forces was to induce closer correspondence between social needs and academic activities. Marketization generally gave greater leverage to consumers in defining the contents of education towards more specific and practical knowledge deemed to fit the immediate needs of the labor market. Also greater dependence on non-institutional resources creates incentive for research close to commercial application. It is unclear, however, that these closer relations will produce benefits in the long run. If the contents are too aligned towards fragmented skills and specific knowledge, the logical integrity of mind and wide perspective may be compromised, which may be harmful for an

individual's productivity in the long run. These questions still remain to be answered.

The third rationale for marketization was the governance of higher education: the move of the loci of decision making from central or regulated to local organizations is considered to encourage innovation and improved efficiency in the system. The trends so far appear to support this assumption. There are, however, a few points of concern. First, in many cases quasi-marketization does not appear to hold this true. The major instrument used for quasi-marketization is systematic evaluation. In most cases, evaluation assumes achievement of certain, but such norms cannot provide for innovative attempts radically diverting from convention. Moreover, evaluation based on contracts would motivate individual institutions to be conservative in setting the contract in the first place.

## Issues

Another set of issue is related to the social consequences of marketization.

### *Equity*

In this sense, the most serious concern should be equity in the opportunities of higher education. The increasing dependence on tuition revenue and the resulting increases in tuition levels would obviously hinder the participation of socially disadvantaged children. The advocates for market remedies argue that equity should be achieved not through governmental subsidies to the institutions but through direct aid to students in the form of need-based grant or loans. In the trend towards marketization, loans are becoming to be the more likely answer. In the welfare state model, one generation pays for the costs of education for the next generation, and the next generation pays the tax to finance the costs for the following generation. In the alternative regime, each individual would pay his/her own costs by borrowing, and eventually will pay it back later. Each individual takes responsibility. While it avoids the parental income being a decisive factor in financing the costs, it forces the students to repay the costs. There are, however, a few problems with this argument.

First, loan schemes, even with very generous repayment terms, do not eradicate the influence of parental wealth altogether. In the case where a student is absolutely confident that education is beneficial, but has difficulty in meeting the costs, then a loan scheme will help this student to enroll. Most students, however, consider certain risks, arising from the evaluation of ability and future labor market,

in obtaining returns. If the risks are high, then the student may not enroll. On the other hand, students who get funds from their parents may enroll even though there are certain risks. In fact, surveys in the U.S. and in Japan indicate that students from low-income families tend to avert the risks. Parental income thus affects the probability of enrollment.

Second, performance of a loan scheme is critically dependent on its terms. The lower the interest, and longer the grace period and repayment period, the greater its effect on equity will be greater. Income-contingent loans, such as Australian Higher Education Contingent Scheme (HECS), will protect possible borrowers from the risks. That, on the other hand, may raise the possibility of moral hazard in repaying the loans.

Third, loan schemes entail considerable financing and administrative costs. In recent years the market interest rates have held relatively stable at low levels in the developing countries. Nonetheless, without any governmental support the commercial banks have to carry fairly severe repayment terms. The government has to intervene by subsidizing the margin in the interest rate. Also the government has to be involved in reducing the administrative costs, especially in securing repayment. Some countries link the loan scheme with the income tax system. Nonetheless, increased mobility of workers especially under globalization will increase the risk of default.

### *Quality and Consistency of the Higher Education System*

Another concern about marketization is its effect on the quality of activities of higher education institutions, particularly with respect to education. Marketization creates strong incentives to create education programs popular among the potential learners, while keep its costs at minimum levels at the same time. While such pressures should be strong among for-profit institutions, traditional institutions may be affected to varying degrees. That may lead institutions into a particular type of behavior if not outright fraud. To this, advocates for marketization would argue that market competition itself will prevent such behavior because institutions will have to maintain reputation in the market competition. Still, there remain a few analytical questions over this debate.

Paradoxically, marketization of higher education is dependent on the system of academic degrees guarded by an extensive body of regulatory procedures. If a particular set of knowledge and training was clearly discernable, then higher education institutions can compete freely in the market for the efficiency to provide

such a set. Because such a tangible indicator rarely exists, the society on the whole and the employers look to academic degrees. In fact, the monopoly in providing academic degrees was the ground on which the classical universities were founded. Moreover, there are too many institutions and specialties, it is practically impossible to track the record of a particular program. It is important to observe that for-profit institutions consider critical to have the status of degree-granting institution.

This issue is particularly important when one considers the basic academic degrees such as Bachelor' of Arts. Throughout its history, modern universities thought to integrate specialized and practical education with basic training of the mind, in the form of general education and liberal arts education. The combination of the two forms the pinnacle of national education system. Such an education is not only important to foster better citizenship, but also critical in forming the basic attitude and ability for the learning in the subsequent years. Marketization, however, tends to emphasize the more specific skills demanded in the current labor market. Moreover, general and liberal-arts education tend to be dependent on individual teachers, and therefore cannot be easily standardized for reducing costs.

At the same time, in order to respond to the demands in the market, higher education institutions create new academic degrees. In European countries the names of degrees, which correspond closely to occupation titles, tend to be strictly regulated. But in the U.S. and in Japan, where such a mechanism does not exist, the variety of academic degrees has expanded enormously. This tends to confuse the market.

These problems can be compounded by the increasing mobility of students. Under the trend of universalization of higher education, students may stop out from one institution and then return to study at other institutions. The learning experiences from one institution may be transferred to the new institution under certain conditions, but the application of such conditions in accepting such transfer entails difficulty because of the multitude of learning programs. Similar, but potentially more serious, problems are taking place with the international mobility of students. Under globalization the mobility of students and graduates are increasing, and the U.S. and some English speaking countries are promoting the acceptance of academic degrees under the framework of GATS (General Agreement on Trade in Services) of WTO. Moreover, development of IT has made it possible for students to get a degree in foreign institutions without actually spending any time in residence.

### *Social Contract*

The third question is related to the social contract on the provision of the opportunities in higher education. Over the course of the evolution of the modern state into the welfare state, modern systems of higher education were integrated into the written or unwritten contract formed by the members of society. Higher education constituted a critical pinnacle of such contract because of its critical position to distribute social opportunities. Marketization, in a sense, reflects criticisms on this old social contract, which not only created vast inefficiencies that were no longer sustainable, but also hid unfairness. But how should a new contract be written?

The discussions above indicated that, even though marketization stands out as an antithesis against state-intervention, its function is critically dependent on higher education policies and other non-market forces. The United States shows the most advanced form of marketization of higher education not because of the lack of, but rather because of the strong financial support from the government and individuals for higher education. The work of market in higher education is thus standing on a delicate balance and logical contradictions. That raises a question on how a new social contract can be written in a logically consistent language.

That shows how difficult it is in the other countries to strike a new social contract. The U.K., for example, tried to design a new relation between the universities and the government based on the theoretical construct of new public management, which I may call quasi-marketization of higher education. The success of his contract is unclear. Japan tried a similar approach in reforming its national universities into National University Incorporations, but its design involves a wide range of issues which will take considerable time to settle. After all, experiences show that marketization cannot be designed in details – it evolves through trial and error.

## Conclusion

Arguing the case for market economy, E.S. Hayek once wrote that the distributed decision making of market economy brings about more innovation than the planned economy. The same argument can be applied to higher education to an extent. Nonetheless, closer analysis of the present trends in marketization of higher education reveal that in reality it functions only in combination with government intervention and voluntary support. At the same time, it appears to be difficult to design an ideal form of marketization. What remains possible should be to keep examining the forms and consequences of marketization, Here lies the task for research in higher education.

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