

GOVERNMENT INTERVENTION IN HIGHER EDUCATION: A THEORETICAL APPROACH

Hülya BULUT

Assist.Prof.Dr.

Istanbul Arel University, Department of Banking and Finance hulyabulut@arel.edu.tr

ABSTRACT

Globalization, especially over the last three decades, has wrought many changes in a proper role of governments to not only the perception of some politic issues, such as effective policy making, but also some economic issues, such as maximizing the social welfare. Governments have a wide range of instruments in order to make their societies more welfare by increasing desired politically, socially and economically desired outcomes. In the light of relevant economics theory, the objective of this paper is to analyse the main three theoretical dimensions of government interventions: Public goods and social benefits, subsidization and externalities and market imperfection.

Key Words: Government Intervention, Higher Education, Public Goods, Subsidization, Externalities, Market Imperfection.

Introduction

Education is generally considered a public good and a human right for quite a long time. A public good is based on two distinct characteristics which include non-excludability and the non-rivalry in consumption. The latter characteristic means that there ought not to be a decrease in the benefits others receive as a result of additional people joining the educational system. Various international institutions especially the United Nations as such have backed the conceptualization of education. It is, however, important to point out that the education scene has changed significantly in the recent time given the involvement of many actors including for-profit organizations and non-state actors. To some extent, the higher education has a capitalism feel (Slaughter and Rhoades, 2004). Nonetheless, the government has continued to play its role. A reason behind this is based on the notion that despite the change being experienced in higher education in terms of participation, it is still considered a public good largely internationally (Vaira, 2004). There are various dimensions through which the government intervenes in higher education. These dimensions include treating higher education as a public good to enhance social benefits, externalities and subsidizing and market imperfections.

Materials And Methods

Since the research is qualitative, the results of the study were based on extensive analysis of the existing literature and scholarly materials published on this subject matter based on the fact there provide reliable and accurate journals and academic books. It is certain to note that the credibility of sources is of importance as it influence the accuracy of the findings. That notwithstanding the year of publication was crucial to ensure that the information derived paints an accurate of what currently exists with regard to the subject matter. Content analysis is the main data analysis procedure utilised as it entailed the review of common themes in the articles that are utilised for the study.

Literature Review about Government Intervention in Higher Education

The literature review aims to provide a critical illustration of the role of government in higher education in terms of its right of intervention in the light of education's common and distinctive features. Musgrave (1969) highlight that the growing number of private actors in the education sector have seen it transform from being a pure public good to being an impure public good considering the rivalry within this sector sparked by intense competition. Kirkwood and Mundel (1975, p.132) add that "considering the large number of low-income families, a large number of youth are likely to miss higher education just because they cannot afford it".

Most of the literature reveals a level of similarity in the structures that education is one of the crucial role of government in any society in terms of the externalities of education: According to Ball et.al. (2002), higher education contributes significantly in one's economic and social wellbeing, which makes it, tis quite essential. Liefner (2003) state that education is a right of any person interested in accessing it. In the modern day however, everyone knows that accessing a college education is expensive with different people coming up with ideas on how to remedy this. Slaughter and Rhoades, (2004) suggest that the government can establish a welfare program aimed at supporting students from low-income families. Reay et.al. (2005) is of the view that this could go a long way in ensuring that every youth gains access to education regardless of their social class. Moreover, this can be quite effective particularly considering that students from low-income families often bear the blunt of the lack of equity in the higher education sector.

Marginson (2006) and Wilkins et al (2012) contend that only government roles alone are inadequate for good at making effective policies for education. Also, it is important to consider that the essential of education features: Where one individual is unable to access higher education for one reason or another, this is likely to have a ripple effect even to following generations and vice versa. Likewise, only those that can afford the education have access to it means that equity lacks significantly. Notably, education is classified as a public good meaning that its access is not limited to a certain group of individuals only. The involvement of the state can come in the form of establishing national institutions in which students can access education at fair prices.

Results and Discussion

I-Public Goods and Social Benefits

Musgrave (1941, 1959, 1969) gave a clear definition of public good "as a counterpart to a private good, is a good whose consumption does not diminish its availability to other consumers" (Samuelson, 1954). Pusser (2006) describes public goods as a good that posses the features of non-rivarly and non-excludability and one that is valued by the individuals. According to Kotchen (2009), public goods have two defining features. The first is non-rivarly which implies that the accessibility of the product by one person does not minimise the ability of other people to enjoy the same good. The other feature is non-excludability which means that people cannot be disallowed to enjoy the good. In this context, there are goods and services that are considered best to be left to the market (Dill, 2003). This means that the market determines supply and the pricing of such goods besides influencing another key attribute of the products. On the other hand, there are goods and services considered to be only fairly and efficiently provided through government intervention. It education was to be left to the market which is largely capitalist, there is no telling how many would miss out (Marginson, 2013). Thus, higher education is considered a public good as it is one of those goods that require government intervention for the purpose of fair distribution (Olssen and Peters, 2005).

Besides being a public good, higher education is a right for every willing consumer. If left to the market, higher education can easily change from being a right for all to being a luxury. Notably, there are key characteristics that define pure public goods. One of these characteristics is non-excludability. These means that the benefits arising from public goods cannot be enjoyed only by those, which have paid for it. Instead, those that have not paid for it can enjoy the benefits as well. With private goods, enjoying the benefits is ultimately pegged on payment for the goods or services. Notably, the growing competition in higher education contributes to the seemingly growing consideration of it being termed as a private good (Marginson, 2006).

One major approach entails the enlargement of the public good standard from the inside by looking at the ethical considerations. Through this approach, the standard theory is interpreted loosely as non-excludability of education is considered on ethical ground and not on a technical one. Human rights in this approach come into play, which therefore makes education to be compulsory (Daviet, 2016). This brings about some semblance of fairness in the offering of higher education (Douglass, 2005). The difficulty in accessing higher education is well illustrated by the high costs attached to private institutions offering it. Devoid of government institutions offering the higher education, the vast majority would miss out and higher education would be a reservation of the financially capable (Arum et.al, 2007). The other characteristic of pure public goods is non-rival consumption. This means that consumption by one consumer does not bar another consumer from consuming

the same good or service. In other words, the marginal cost of offering the good or service to another person is essentially nil. It is vital to highlight that without government participation, these characteristics of public goods, higher education, in this case, would be irrelevant (Burke, 2004). Notably, the government ought to be concerned with the welfare of every citizen regardless of their financial capabilities. It is essentially the intervention of the government in higher education that makes it a public good. Despite the involvement of the state in subsidizing higher education through various measures, the education sector remains competitive due to the involvement of private institutions. The competition arises in terms of quality of education and tuition fees. This therefore ultimately classifies education as an impure public good.

“The categories of public goods and social benefits that may result from higher education and thus provide possible grounds for social support include knowledge; economic growth; political, social, and market functionings; geographic mobility; social and economic mobility; and various intergenerational effects” (Kirkwood and Mundel, 1975, p.121). Knowledge refers to the information and skills acquired through real life experiences as opposed to a formal process. The key difference between knowledge and education is that education is acquired through a formal process while knowledge is gained through real life experiences. Economic growth; basically, this refers to the growth in the ability of an economy to create services and goods in comparison to another period. Notably, a country that has a large number of educated people is likely to realise more economic growth than once that is lacking in education. Political, social and market functioning; market functioning refers to factors that enable a company to create successful products for the market. Notably, the execution of this function in addition to political and social status in any country is to some extent determined by the level of education in that particular country.

Furthermore, geographic mobility; this is a statistic that measures the level of migration in a population. Essentially, countries that have less developed higher education system are likely to experience high geographic mobility as people move to other countries in pursuit of education. Social and economic mobility; social mobility is defined as the movement of different groups of people across different social strata while economic mobility is the movement of people across different economic strata. Intergenerational effects; in some way this refers to the perceptions of educated and non-educated parents and the effect that this has on generations. Parental support is crucial in higher education. Parents who have not acquired a higher education are likely to be reluctant in support their children to pursue it while those that have are likely to support their children rather strongly. Moreover, youths from low-income families are likely to face major limitations in accessing higher education than students from financially well-off families (Kirkwood and Mundel, 1975).

II- Subsidization and Externalities

Higher education enjoys subsidies in multiple countries globally; even there are conspicuous differences in the level of subsidization offered (Altbach and Knight, 2007). Essentially, this is another dimension that government uses to intervene in higher education. In Scandinavian countries, public funds making up the universities budgets amount to about 90%, which means government subsidies, only covers 10% of the budget. In other countries such the US and UK, public funds make up for only 30% of the budget meaning 70% is offered by the governments as a subsidy (Foskett, 2011). These differences root from various factors including transparency in governance, level of economic development and general perception of education in the country among others (Dill and Soo, 2004).

Nonetheless, subsidization of higher education by the government is motivated by two main factors. The first one is the necessity to aid young people from low class of the society to gain education. The second reason is the perception that higher education is accompanied by positive externalities. It is likely that without government subsidies, there would be an underinvestment in higher education. The rationale behind this rests on the implications of positive production externalities.

In this context, “the following categories of externalities or external effects are often cited as justifications for social support for higher education:

- (a) Lower welfare and transfer program costs;

- (b) Increased tax yields; and
- (c) External effects among students within the educational process itself' (Kirkwood and Mundel, 1975, p.128).

Lower welfare and transfer program costs; lower welfare refers to the existence of minimal support offered, in this context, to persons seeking higher education and transfer program costs on the other hand refer to costs attributed to the process of sponsoring individuals to seek higher education in other geographically distant regions. Increased tax yields; this is an increase in amount of taxes collected resulting from increase in revenue of the taxable persons or companies. External effects among students in the educational process; this refers to factors such as politics, state of the economy and social factors that influence the students outside the learning institution (Kirkwood and Mundel, 1975).

These concepts refer to a situation where an institution improves the well-being of others, but it does not receive any compensation. Thus, not many institutions would be willing to offer education unless they receive fair compensation (Luke, 2005). So far, little focus has been placed on the negative externalities. Considering this, some literature suggests that gathering more evidence on negative externalities attached to higher education could give more reason to suppress higher education rather than subsidize it. Nonetheless, it is vital to point out that, higher education is pertinent to the economy and the society as well (Mason et.al, 2009). Without the knowledge acquired through higher education, most economies would be far from achieving any meaningful developments (Marginson, 2014). Subsidization is essential in levelling the ground in regard to accessing higher education (Morley, 2003). In so doing, however, the governments must perform due audit to determine the extent of subsidization merited by higher education (Apple, 2005).

III- Market Imperfections

Martin and Oughton (2000) point out that although free market economists and imperfect market economists believe that the role of the government is important in remedying market failures, they still insist an "optimal" level of government intervention, which requires careful consideration of the reason for market inefficiencies and for the design of the remedy. Additionally, Samuelson and Nordhaus (2010) state that government intervention is necessary if there are major market failures such as excess market power in an industry, an inadequate supply of information for consumers and workers, and externalities.

Despite the relentless efforts by the government and other actors to make higher education accessible to as many students as possible, the efforts have not been without imperfections and failures (Hentschke et.al, 2010). Market imperfections refer to cases where instead of improving a situation, the efforts employed appear to aggravate the situation further. Recently, the higher education has been overly prevalent worth market imperfections and failures globally (Mazzarol and Soutar, 2001). Over the last three decades, for instance, the cost to access college education has risen by about 1100%. Moreover, students relying on loans have had to pay back the loans at rates that are above market. The irony in these is that the main objective for government objective in higher education is to ensure that it is accessible to learners from low-income families. To some extent, instead of making higher education more accessible, the loans offered to students tend to make it even more expensive (Epple, et.al, 2006). Notably, some of these students are forced to pay the loans for years from their pay slips.

Besides the high cost attached to student loans, higher education has been mired in rife corruption. These have mostly been associated with most grants and loans designated for low-income students. Additionally, frequent conflicts between regulators and educators have derailed the efforts to make higher education more accessible (Enders, 2004). Often these conflicts end with blame placed on the victims. Notably, most students are pushed to pursue the degrees they do by for-profit and not-for-profit institutions that through their relentless marketing (Wilkins et.al, 2012). Most colleges have invested in luxurious facilities their objective being attracting wealthy full paying students (Ball et.al, 2002). This has also been motivated by global rankings of colleges and universities (Marginson and Van, 2007).

By so doing, they effectively cut off low-income students to avoid dealing with the government in various

situations (Elias and Purcell, 2004). The higher education markets in the US and in India are good examples of market imperfection and failures. The US represents market failures to intermediate the desired outcome except for a small group of institutions in an environment that is largely unregulated. The failures in the higher education market in India are represented by misdirected regulations that are highly intrusive. While deliberating and deciding on the various strategies to implement it as far as improving higher education is concerned, the governments ought to evaluate the risks associated with strategies exhaustively.

In this context, it can be said that “the three important market imperfections that effect higher education are: Capital market imperfections, monopoly and oligopoly behaviors, and the not-for-profit character of colleges and universities.” (Kirkwood and Mundel, 1975, p.131): Capital market imperfections- in higher education context, capital market imperfections manifest in the sense that capital funds offered are limited yet enrolments to college calls for high cost outlay. Moreover, individuals from low-income families are more limited in attempts to access the capital funds. The not-for-profit, oligopoly, monopoly, and higher education features may result in losses to low class persons for various reasons. One of these reasons is the lack of demand responsive system to fulfil types of higher education demanded in the 21st century (Kirkwood and Mundel, 1975).

The not-for-profit, oligopoly, monopoly, and higher education features could result in disproportionate shortcomings to low income students due to several reasons. One of these reasons is the lack of demand responsive system to fulfil types of higher education demanded in the modern world. The second reason is that while low-income students accessing higher education may want to leave the institutions having garnered similar skills as their high-income counterparts, this may be derailed by the adverse experiences they encountered in colleges. (A demand responsive supply, students wishing to access traditional programs could benefit from existing compensatory activities. Considering the correlation between family income and high school achievement, it is imperative that low-income students are likelier to be affected by non-responsive supply). Third, the relentless pursuit by colleges to maximize the quality of their graduates as opposed to improving the net gains of their students may be a limiting factor in enrolment and have adverse effects on low-income individuals (Kirkwood and Mundel, 1975).

Conclusion

To some extent, higher education lays the foundation for economic development besides being fundamental to the wellbeing of those that access it and those that depend on them. Notably, considering that education is a right for everyone, it is paramount that it be made accessible to all regardless of their social class (Reay et.al, 2005). It is for this reason that the governments take various measures to make higher education accessible. These measures include offering subsidies and loans to institutions and low-income students respectively. Unfortunately, these efforts have for a long time been derailed by corruption and macroeconomic factors such as inflation. Consequently, higher education has seemingly become more expensive than it ought to be.

The higher education market is currently characterized by the participation of various actors including private players, for-profit and not-for-profit actors. These, therefore, calls for a review of regulations to ensure that they sufficiently benefit the intended parties (Christensen and Eyring, 2011). In this context, it is true that “private actors are likely to provide education only for students whose parents can pay school fees. (Davied, 2016, p.3). “It is highly likely that some students could be locked out of school considering that private actors are often more interested in students who can afford to pay for the education” (Kirkwood and Mundel, 1975, p.132). Therefore, this paper fully concurs with the idea of government intervention, which is a need to ensure equity in education.

References

- ALTBACH, Philip G. and KNIGHT, Jane. (2007). The Internationalization of Higher Education: Motivations and Realities. *Journal of Studies in International Education* 2007 11: 290 DOI: 10.1177/1028315307303542. p: 290-305. APPLE, Michael W.(2005).Education, Market and Audit Culture. *Critical Quarterly*. Volume 47, Issue 1-2. p:11-29. Available online at:

- http://www.readcube.com/articles/10.1111/j.00111562.2005.00611.x?r3_referer=wol&tracking_action=p_review_cli&show_checkout=1&purchase_referrer=onlinelibrary.wiley.com&purchase_site_license=LICENSE_DENIED. (30.11.2017).
- ARUM, Richard; GAMORAN Adam and SHAVIT Yossi. (2007). More Inclusion Than Diversion: Expansion, Differentiation, and Market Structure in Higher Education. Book Title: Stratification in Higher Education. A Comparative Study. p:1-35. Stanford University Press. ISBN: 9780804754620 (pbk); 9780804771528 (hbk).
- BALL, Stephen J.; DAVIES Jackie; DAVID Miriam and REAY Diane. (2002). 'Classification' and 'Judgement': Social Class and the 'Cognitive Structures' of Choice of Higher Education". *British Journal of Sociology of Education*, 23:1,51-72, DOI: 10.1080/01425690120102854.
- Available online at: <https://doi.org/10.1080/01425690120102854>. (06.12.2017).
- BURKE, Joseph C. (2004). *Achieving Accountability in Higher Education: Balancing Public, Academic, and Market Demands*. ISBN:0787972428. San Francisco, CA: Jossey-Bass. p:1-24.
- CHRISTENSEN, Clayton M. and EYRING, Henry J. (2011). *The Innovative University: Changing the DNA of Higher Education from the Inside Out*. ISBN: ISBN-978-1-1180-6348-4.
- DAVIET, Barbara. (2016). *Revisiting the Principle of Education as a Public Good*. Education Research and Foresight Series, No. 17. Paris: UNESCO. p:1-11.
- Available online at: <http://www.unesco.org/new/en/education/themes/leading-the-internationalagenda/rethinking-education/erf-papers/> (28.11.2017).
- DILL, D.D. and SOO, M. (2004). Transparency and Quality in Higher Education Markets. In *Markets in Higher Education: Rhetoric or Reality?* P. Teixeira, B. Jongbloed, D. Dill, and A. Amaral (eds), p: 61-86. Dordrecht: Kluwer.
- DILL, D.D. (2003). *Allowing the Market to Rule: The Case of the United States*. *Higher Education Quarterly*. Volume 57. Issue 2. p:136-157.
- DOUGLAS, J.A. (2005). How All Globalization is Local: Countervailing Forces and Their Influence on Higher Education Markets. *Higher Education Policy*. Volume 18. Issue 4. p: 445-473.
- ELIAS, Peter and PURCELL, Kate. (2004). In *Mass Higher Education Working? Evidence from the Labor Experiences of Recent Graduates*. Volume 190. Issue 1. p: 60-74.
- ENDERS, Jurgen. (2004). Higher Education, Internationalisation, and the Notionstate: Recent Developments and Challenges to Governance Theory. *The Journal of Higher Education*. Volume 47. Issue.3. p:361-382.
- EPPLE, Dennis; ROMANO, Richard and SIEG, Holger. (2006). Admission, Tuition and Financial Aid Policies in the Market for Higher Education. *Econometrica Journal of The Econometric Society*. Volume 74. Issue 4. DOI: 10.1111/j.14680262.2006.00690.x.p:885-928.
- FOSKETT, Nick. (2011). Markets, Governments, Funding and The Marketisation of Higher Education. Chapter 3 in *The Marketisation of Higher Education and the Student as Consumer* Edited by Mike Molesworth, Richard Scullion and Elizabeth Nixon. Routledge Taylor & Francis Group. p.25-38. Available online at: <https://network23.org/freeunisheff/files/2015/07/Mike-Molesworth-Richard-Scullion-Elizabeth-Nixon-The-Marketisation-of-Higher-Education-and-the-Student-as-Consumer-book.pdf>. (09.12.2017).
- HENTSCHKE, Guilbert C; LECHUGA, Vincente, TIERNEY William G. (2010). *For-Profit College and Universities: Their Markets, Regulation, Performance, and Place in Higher Education*. Stylus Publishing LLC. ISBN: ISBN-978-1-5792-2425-7.
- KIRKWOOD, John B. and MUNDEL David S. (1975). The Role of Tax Policy in Federal Support for Higher Education. *The Law and Contemporary Problems*. Volume 39. Issue 4. p:117-155.
- KOTCHEN, Matthew J., 2009. Voluntary Provision of Public Goods for Bads: A Theory of Environmental Offsets, *The Economic Journal*. Volume 119. Issue 537. p:883-899.
- LIEFNER, Ingo. (2003). Funding, Resource Allocation and Performance in Higher Education Systems. *Higher Education*. Volume 46. p: 469-489.
- LUKE, Carmen. (2005). Carmen and Knowledge Flows: Global Higher Education Markets. *Asia Pacific Journal of Education*. Volume 25. Issue 2. p:159-174.

- MARGINSON, Simon. (2014). Higher Education and Public Good. In: Barnett R.(eds)Thinking About Higher Education. Springer Published. ISBN: 978-3-319-03252-5.
- MARGINSON, Simon. (2013). The Impossibility of Capitalist Markets in Higher Education. Journal of Education Policy. ISSN:0268-0939.Volume 28. Issue 3. p:353-370.
- MARGINSON, Simon and VAN DER MENDE Marjik. (2007). To Rank or To Be Ranked: The Impact of Global Rankings in Higher Education. Journal of Studies in International Education. SAGE Journals. Volume 11. Issue 2-4. p:306-329.
- MARGINSON, Simon. (2006). Dynamics of National and Global Competition in Higher Education. Higher Education Volume 52. DOI 10.1007/s10734-004-7649-x. p:1-39.
- MARTIN, Lawrence W. And OUGHTON, Christine. (2000). Study Guide for Stiglitz and Driffill's Economics. London, WW Norton&Co. ISBN: 9780393975857.
- MASON Geoff, WILLIAMS Gareth and CRANNER Sue. (2009). Employability Skills Initiatives in Higher Education: What Effects Do They Have on Graduate Labour Market Outcomes? Education Economics. Volume 17. Issue 1. p:1-30. Available online at: blob:http://www.tandfonline.com/a0be723f-6b08-4bb9-910f-ca0b9efe12f2. (08.12.2017).
- MAZZAROL, Tim and SOUTAR Geoffrey N. (2011). The Global Market for Higher Education: Sustainable Competitive Strategies for the New Millenium. Edward Elgar Publishing Ltd. ISBN-10: 1840643293.
- MUSGRAVE, R. A. (1969). Provision For Social Goods. In Public Economics: An Analysis of Public Production and Consumption and Their Relations to the Private Sectors. Margolis (J.) and Guitton (H.) (eds.). London: Macmillan. MUSGRAVE, R.A. (1959). Theory of Public Finance; A Study in Public Economy.
- MUSGRAVE, R.A.(1941). The Planning Approach in Public Economy: A Reply. The Quarterly Journal of Economics. p: 319-324.
- MORLEY, Louise. (2003). Quality and Power in Higher Education. The Society for Research into Higher Education. SRHE and Open University Press. (UK).
- OLSSSEN, Mark and PETERS, Michael A. (2005). Neoliberalism, Higher Education and the Knowledge Economy: From The Free Market to Knowledge Capitalism. Journal of Education Policy. Volume 20. Issue 3. p: 313-345.
- PUSSER, Brian. (2006). Reconsidering Higher Education and The Public Good: The Role of Public Sphers. In: W.Tierney (Ed). Governance The Public Good.p:11-28. Albany,NY: State University of New York Press.
- REAY, Diane, DAVID, Miriam E. And BALL, Stephen. (2005). Degrees of Choice, Social Class, Race and Gender in Higher Education. Trentham Books Limited.
- SAMUELSON, Paul A. and NORDHAUS, William D. (2010) Economics. McGraw Hill, Nineteenth Edition.
- SAMUELSON, Paul A. (1954). The Pure Theory of Public Expenditure. The Review of Economics and Statistics. Volume 36. Issue 4. p: 387-389.
- SLAUGHTER, Sheila and RHOADES, Gary. (2004). Academic Capitalism and The New Economy. Markets, State and Higher Education.The John Hopkins University Press. Baltimore and London.
- VAIRA, Massimiliano. (2004). Globalization and Higher Education Organizational Change: A Framework for Analysis. Higher Education. Volume 48. p: 483-510.
- WILKINS, Stephen; BALAKRISHNAN, Melodena Stephens and HUISMAN,Jeroe.(2012). Student Choice in Higher Education: Motivations for Choosing to Study at an International Branch Campus. Journal of Studies. Volume 16. Issue 5. p: 413-433.
- Available online at:http://opus.bath.ac.uk/27934/1/Wilkins_JSIE_2011.pdf. (06.12.2017).