

Cipes



Market competition, public good and institutional governance

IMHE Conference, 2006

**Alberto Amaral and António Magalhães
CIPES and University of Porto**





It has been increasingly assumed that market regulation of the public sector and competition between institutions promote the institutions' responsiveness to society and more efficient use of public funds.

In this paper we analyse the effect of competition on the behaviour of both public and private non-profit higher education institutions by concentrating on institutional policies for offering new study programmes and promoting the access of new students.



The rise of market regulation as instrument of public policy is consistent with the ideas that:

- a) the state should decrease its activity as service provider;**
- b) state regulation should retreat in favour of market regulation;**
- c) competition among institutions is necessary to ensure that they will become more responsive to society and more efficient in the use of public funds.**



However, Massy argued that “...the way institutions currently respond to markets and seek internal efficiencies, left unchecked, is unlikely to serve the public good”.

This danger is exacerbated by excessive competition or by retrenchment operations.

Massy argued that when competition is excessive or when the state cuts public subsidies, thus curtailing the institutional capacity for discretionary spending, non-profit institutions behave like for-profit ones, ignoring the promotion of the public good inherent to their missions.



In this paper we analyse data from the Portuguese higher education system to discuss how both public and private non-profit institutions may deviate from the concept of public good or ignore the government's objectives, a danger that increases under conditions of strong competition.

The major question is to find out if public HEIs and/or non profit private institutions will always act to further the public good even under conditions of market-like competition or will they act to protect their own interest?



The fast expansion period

In Portugal, the 1974 revolution was followed by a period of very fast expansion of the higher education system, which includes both public and private institutions.

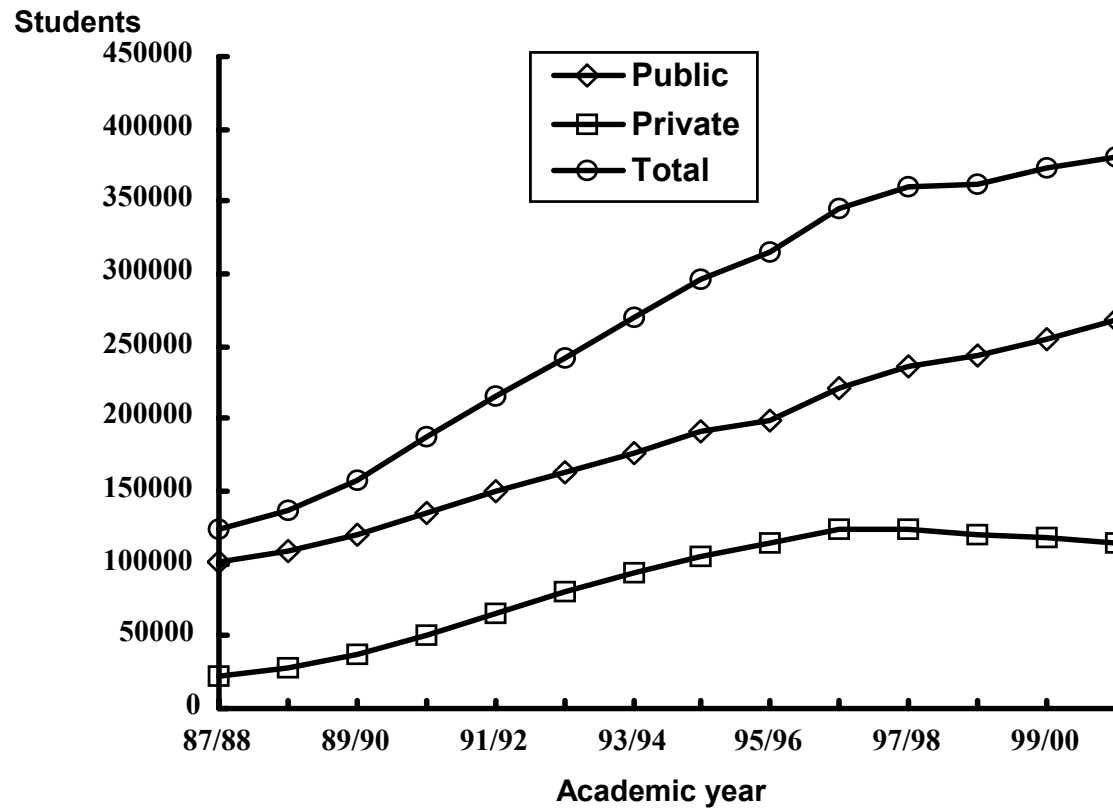
The government had three main policy objectives:

- **increasing the participation rate in higher education**
- **promoting a more even distribution of HE across the country**
- **increasing enrolments in areas relevant to economic development.**



The fast expansion period

IMHE, Paris – 2006





The fast expansion period

Throughout the expansion period, there was no competition between institutions. Demand for higher education so clearly exceeded the available offers that market mechanisms could not play an effective regulation role.

The government was so concerned with student participation that it did not regulate the system to ensure that the two other main objectives were fulfilled.

The result has been a rather anarchic development of the system, mainly of its private component, with large regional and disciplinary concentration in areas that did not correspond to the government's objectives.



The fast expansion period

Table 1 - Enrolments in higher education (%), 1997/98

Location	Private		Public		Total	
	Number	%	Number	%	Number	%
Lisbon/Setúbal (1)	64 328	52.24%	78 009	34.42%	142 337	40.96%
Porto (2)	35 891	29.70%	36 044	15.90%	71 935	20.70%
Main towns (1)+(2)	100 219	82.94%	114 053	50.32%	214 272	61.67%
Others	20 612	17.06%	112 589	49.68%	133 201	38.33%
Total	120 831	100.00%	226 642	100.00%	347 473	100.00%



The fast expansion period

Table 2 - Enrolments in higher education per 1,000 inhabitants, 1997/98

Region	Private			Public		
	Polytechnics	Universities	Total	Polytechnics	Universities	Total
Alentejo	0.4	4.0	4.4	9.3	8.9	18.2
Algarve	0.3	1.3	1.6	10.7	9.7	20.4
Centre	1.0	2.9	4.0	10.6	14.0	24.5
Lisbon	4.1	19.9	24.1	6.5	22.8	29.3
North	3.4	8.2	11.6	5.1	12.2	17.2



The fast expansion period

Table 3 - Enrolments in private and public institutions by area, 1997/98

Area	Private				Public			
	Polytechnic		University		Polytechnic		University	
	Number	%	Number	%	Number	%	Number	%
Education	9 614	35.7%	280	0.3%	10 276	14.1%	16 615	10.8%
Arts and Humanities	1 766	6.6%	7 599	8.1%	2 868	3.9%	19 006	12.3%
Social Sc., Commerce, Law	9 570	35.6%	61 523	65.5%	22 321	30.7%	38 031	24.7%
Sciences, Maths, Informatics	1 089	4.0%	5 925	6.3%	1 349	1.9%	23 188	15.1%
Engineering, Manufacturing and Building Industries	1 162	4.3%	9 324	9.9%	23 518	32.4%	35 166	22.8%
Agriculture	0	0.0%	59	0.1%	3 379	4.6%	6 441	4.2%
Health and Social Protection	2 651	9.8%	5 864	6.2%	6 560	9.0%	8 925	5.8%
Services	1 065	4.0%	3 340	3.6%	2 420	3.3%	6 579	4.3%
Total	26 917	100.0%	93 914	100.0%	72 691	100.0%	153 951	100.0%



The fast expansion period

Over the fast expansion period, private institutions have concentrated their offer in areas of low cost/low investment and in the most populated towns.

The scientific areas did not correspond to the stated objectives of the government in terms of its relevance for the economic development of the country.

However, as the major objective of the government was increasing the overall enrolments, no state regulation was exercised while the market regulation could not be effective.

This is an example of non-profit institutions declared of public interest not giving primacy to the public good in the absence of both state and market regulation.



The retrenchment period

It was from the mid 1990s that the development context of Portuguese higher education started to change as the combined result of declining birth rates and a policy move towards quality.

This has created a strong competition for students while enrolments started to decline.

The private university sector was seriously hit, as its enrolments have decreased by more than 26,500 students since 1997/98, which represents a 28.5% decrease.

The other sectors have been more stable and the decreasing enrolment trend has been more recent and less dramatic.



The retrenchment period

Table 4 - Enrolments in higher education, retrenchment period

		1997/98	1998/99	1999/00	200/01	2001/02	2002/03	2003/04	2004/05
Public	Universities	153 951	158 850	164 722	171 735	176 303	178 000	176 827	173 897
	Polytechn ics	72 691	80 007	90 286	101 795	108 486	112 532	111 482	108 376
	Total Public	226 642	238 857	255 008	273 530	284 789	290 532	288 309	282 273
Private	Universities	93 914	89 361	88 190	82 979	79 908	77 109	73 708	67 157
	Polytechn ics	26 917	28 572	30 547	31 194	31 904	33 190	33 046	31 507
	Total Privat e	120 831	117 933	118 737	114 173	111 812	110 299	106 754	98 664
TOTAL		347 473	356 790	373 745	387 703	396 601	400 831	395 063	380 937



The retrenchment period

In private universities there has been a 25.4% decrease of first year enrolments, but while the area of Social Sciences, Commerce and Law presented a 35.3% decrease, all the other areas had only a 10.6% decrease. First year total enrolments in Law have declined from 1,705 in 1997/98 to only 674 in 2004/05, which corresponds to a 60.5% decline. Therefore the present situation of many private universities is the result of their initial strategy of concentrating the programme offers in a low-cost area with declining employment prospects.

Table 5 - First year enrolments in the private university sector

	1997/98	1998/99	1999/00	200/01	2001/02	2002/03	2003/04	2004/05
Total private university	16 823	17 141	16 575	16 942	16 333	16 137	14 528	12 545
Social sci., commerce,law	10 107	9 501	8 729	9 099	8 477	8 682	7 721	6 538
Others	6 716	7 640	7 846	7 843	7 856	7 455	6 807	6 007



The retrenchment period

In the case of private polytechnics, the number of first year enrolled students has changed from a total of 8,875 in 1997/98 to a maximum of 10,669 in 2001/02, to a decrease to 8,453 in 2004/05, which represents a decline of only 4.8% relative to 1997/98.

This is explained by a decline of enrolments in the two traditional major areas, Education (from 36.95 to 24.4%) and Social Sciences, Commerce and Law (from 31.6% to 14.0%), while the area of Health and Social Protection shows a dramatic increase from 13.7% to 52.1%.

However, the polytechnic health sector is already saturated due to the initiative of the private sector as well as to competition from public polytechnics.



The retrenchment period

Table 6 - First year enrolments in private polytechnics (%) per area

	1997/98	2004/05
Education	36,9%	24,4%
Arts and Humanities	7,7%	4,3%
Social Sc., Commerce, Law	31,6%	14,0%
Sciences, Maths, Informatics	3,8%	1,9%
Engineering, Manufacturing and Building Industries	3,2%	1,8%
Agriculture	0,0%	0,0%
Health and Social Protection	13,7%	52,1%
Services	3,2%	1,5%
Total	100,0%	100,0%



The retrenchment period

The behaviour of private institutions shows strong isomorphic characteristics. When an institution starts a new programme that attracts students there is a phenomenon similar to which happened in the new world when someone struck gold: lots of institutions jump into this new opportunity for a short term escape from bankruptcy and propose new programmes irrespective of the absence of consolidated academic staff, facilities or libraries. There has been the “management” race, the “environment” race, and more recently there is the “health” race.

In the public sector the phenomenon is not yet so clear, one of the reasons being the fact that decreasing enrolments trends are more recent.



The retrenchment period

However, one may refer to the case of the health sector in public polytechnics, with an increase in the first year enrolments from 2,543 in 1997/98 to 5,680 in 2004/05 (123%).

Other example is provided by the case of architecture in the universities, with an increase in the first year enrolments from 1,498 in 1997/98 to 2,166 in 2004/05 (45%). The public sector has increased enrolments from 425 to 546 (28%) but the number of programmes increased from 4 to 9. The private sector has increased enrolments from 1,073 to 1,620 (51%) and the number of programmes increased from 8 to 15.



The retrenchment period

The “environment” offers another interesting example for the whole system as there was a time when it was considered a promising new area. When the “new area” was discovered, one observed an increase in the number of programmes and enrolments until the labour market became saturated and its attractiveness started to decline (table 7).

Table 7 - First year enrolments (system) in environment degrees

1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
799	870	970	1064	900	1016	850	546



There is a widespread conviction that the “market” will be more effective than state regulation in promoting diversity of higher education systems, both in terms of institutional types, of programmes and of activities.

...when resources are tight, the market is a much more powerful force for the differentiation of higher education institutions and functions than centralized policy and control (R. Geiger 1996, p. 2000).

...at times of prosperity academic forms of coordination will prevail, leading to academic drift as efforts to raise institutional status result in imitation of the more prestigious institutions. When resources are scarce, the fight for survival takes place under market co-ordination, and institutions will diversify in search of market niches and new clientele. As Geiger said: “when institutions cannot do what they like, they do what they must.”



In Portugal, during the period of fast expansion, weak state regulation and the absence of market competition allowed the private sector to develop in directions contrary to the government's policy objectives, and even against the long time survival interests of its own institutions. In the retrenchment period, when strong competition for students emerged, private institutions were forced to abandon their initial strategy of low-cost/low-risk offers and to move into areas that would attract students.

However, institutions seem to pursue short-term survival strategies rather than long-term strategies or the government's objectives. Institutions jump on to newly available opportunities until the labour market sends clear signs of saturation and students move away, a behaviour that is similar in public and private institutions.



In Portugal, due to competition for students it seems that some aspects of market coordination are emerging. However, both public and private non-profit institutions seem to pursue strategies of short term survival while ignoring the public good, which questions the adequacy of the market for the regulation of higher education systems.