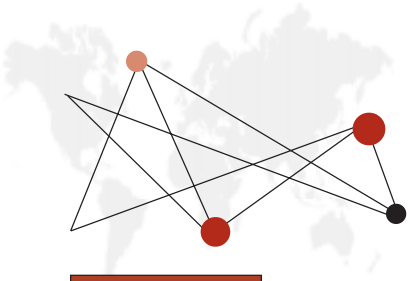

Chapter 2 Higher Education and the Public Interest

For centuries people have gained a substantial benefit from the higher education they have received—and wider society has benefited too. This public interest is central to the argument that collective action is needed to support, nurture, and strengthen higher education institutions. It also affects decisions on how much should be invested in higher education and from what sources that investment should come.

It is good to keep in mind that *international support* for higher education has passed through three overlapping phases in the past half-century:

- general support to strengthen existing universities;
- an accelerated effort to establish a new type of higher education institution, the "development university," focused on serving local development needs, especially in the areas of agriculture, health, and industrial development; and
- various attempts to establish centers of excellence, especially in the areas of science and technology, but only in a very select group of countries.

These phases have had an uneven impact on universities over the decades and have gradually altered the way universities serve the public interest. This chapter explores the precise nature of the public interest in higher education and discusses why its importance has tended to be underestimated. It also explores the impact of the new realities—especially expansion and differentiation—on the strength of the public interest.

The Public Interest

Higher education simultaneously improves individual lives and enriches wider society, indicating a substantial overlap between private and public interests in higher education. Higher education raises wages and productivity, which makes both individuals and countries richer. It allows people to enjoy an enhanced "life of the mind," offering wider society both cultural and political benefits. And it can encourage independence and initiative, both valuable commodities in the knowledge society.

The benefits of education, according to the Inter-American Development Bank's *Facing up to Inequality in Latin America* (1999), for example, are substantial. In Latin America as a whole, a worker with six years of education earns 50 percent more than someone who has not attended school. This gap increases to 120 percent for those with 12 years of education (i.e., completing secondary school), and exceeds 200 percent for those with 17 years of education (i.e., completing a university diploma). These benefits are "private," although there are also public benefits, as a better trained workforce contributes to rising tax streams, better healthcare, improved institutional capital, and so forth.

The macroeconomic impact of education is strong: just as individuals with better education tend to achieve greater success in the labor market, so economies with higher enrollment rates and years of schooling appear to be more dynamic, competitive in global markets, and successful in terms of higher income per capita. The point is dramatically illustrated by the experience of East Asia. From 1991 to 1995, East Asia experienced faster growth per year than did Latin America. Economists calculate that the higher education levels of the East Asian workforce account for a full half-point of that difference. It is thus in the interests of a much wider set of policymakers, as well as the business community, to become more actively involved in national debates about the reform and future of education systems.

This chapter does not attempt to provide an exhaustive catalogue of areas where there is a public return to investments in higher education, above and beyond the private return. The intention is to illustrate the public-interest perspective as it relates to economic and social development, concentrating on higher education's ability to:

- unlock potential at all levels of society, helping talented people to gain advanced training whatever their background;
- create a pool of highly trained individuals that attains a critical size and becomes a key national resource;
- address topics whose long-term value to society is thought to exceed their current value to students and employers (for example, the humanities); and
- provide a space for the free and open discussion of ideas and values.

Developing countries are currently under great pressure to meet increased demand for higher education, and many are finding it hard to keep up. They are becoming increasingly reliant on fee-based education and private, for-profit providers. In this environment, education becomes more narrowly focused on providing a skilled labor pool for the immediate needs of the economy. Market forces predominate and the public benefits of—and responsibilities for—higher education recede from view.

Certainly, competition within the higher education sector can lead to higher standards and to significant benefits for individual students. In many developing countries, however, markets do not function well and this leads to a serious misallocation of resources. Access, for example, is limited by income, excluding potentially able students and diluting the quality of the student body. Poor market information dilutes competition, allowing weak, exploitative institutions—some of them foreign—to survive and even prosper, and lessening the chances of dynamic new entrants.

Even when markets work well and students receive a quality service, private institutions may still fail to serve the public interest. For-profit institutions must operate as businesses, facing the market test and trying to maximize the return on their investment. It may not make good financial sense for them to invest in public-interest functions, and therefore they may underinvest in certain subjects and types of higher education, even if these are important to the well-being of society as a whole. The public sector thus retains a vital and, in our opinion, irreplaceable role in the higher education sector.

This role can take many forms. Governments can be direct providers of higher education, offer finance for its provision, or do both. They can develop legal and regulatory institutions to promote and shape the higher education system, and regulate individual institutions—even when these are privately chartered and funded.

But governments do not have an open-ended mandate in this area. Whatever their policies, they must be able to demonstrate that they are using resources in a way that offers society benefits that the private sector cannot supply. The public interest argument cannot be a cover for public sector waste, inefficiency, or lack of vision.

The Influence of Rate-of-Return Analysis

Although the concept of human capital dates to Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), it is only within the past 50 years that labor economists have seriously examined the returns to investment in education. By the mid-1970s techniques focused on the difference between average annual earnings among people with different levels of educational attainment (for example, secondary versus primary school graduates). They also analyzed differences between social and private rates of return, by comparing the amount of public subsidy received by education with the amount of extra tax society was able to levy on resultant higher earnings.

These techniques seemed to demonstrate that higher education offered lower private returns than primary education. They also showed that social returns were lower and, considering that higher education absorbs considerably higher investment, they demonstrated that the public interest in higher education was substantially lower than that in primary education. Taken together, these results provided a powerful justification—especially for international donors and lenders—for focusing public educational investment at the primary level. This justification was further reinforced by the obvious gains in social equity associated with such a strategy, as highlighted and endorsed by the Jomtien Declaration in 1990. The World Bank drew the conclusion that its lending strategy should emphasize primary education, relegating higher education to a relatively minor place on its development agenda. The World Bank's stance has been influential, and many other donors have also emphasized primary and, to some extent, secondary education as instruments for promoting economic and social development.

The Task Force fully supports the continuation of large investment in primary and secondary education, but believes that traditional economic arguments are based on a limited understanding of what higher education institutions contribute. Rate-of-return studies treat educated people as valuable only through their higher earnings and the greater tax revenues extracted by society. But educated people clearly have many other effects on society: educated people are well positioned to be economic and social entrepreneurs, having a far-reaching impact on the economic and social well-being of their communities. They are also vital to creating an environment in which economic development is possible. Good governance, strong institutions, and a developed infrastructure are all needed if business is to thrive—and none of these is possible without highly educated people. Finally, rate-of-return analysis entirely misses the impact of university-based research on the economy—a far-reaching social benefit that is at the heart of any argument for developing strong higher education systems.

Access to Higher Education

An important ingredient in the public interest in higher education is its role in creating a meritocratic society that is able to secure the best political leaders and civil servants, doctors and teachers, lawyers and engineers, and business and civic leaders. These people are often selected from the most educated, and

Box 3

The Basics of Rate-of-Return Analysis

Estimating the "rate of return" on investments in different levels of education allows public policymakers to judge the effectiveness of education policies that target different levels of the education system. Labor economists have a long tradition of constructing such estimates. One conventional approach involves comparing the average earnings of individuals at various stages of educational achievement (for example, those who have completed primary education versus those who have not, or those who have completed higher education versus those whose formal education ended with the completion of secondary school). After adjusting for direct costs associated with the corresponding levels of educational achievement (for example, tuition and fees), and taking account of the fact that the value of a given sum of money will vary depending on the time at which it is spent or received, the (discounted net) earnings differentials can be expressed in classic "rates-of-return" terms.

Rates of return are considered private if they are based on differences in take-home pay and the costs of schooling that come out of the pockets of students and their families. Standard references on the calculation of rates of return abound, with the leading collection of actual estimates reported by George Psacharopoulos, 1994 ("Returns to Investment in Education: A Global Update," *World Development*, 22: 1325–43).

Once both private and social rates of return are calculated, it is easy to calculate the difference in these rates—i.e., how much society benefits above and beyond the private return. It is this difference that provides an economic justification for government action. If the social return exceeds the private return, this tells us that the unfettered operation of private markets (so-called "laissez-faire") will not produce as much education as is desirable from the point of view of society. (This is because private markets base their decisions on private returns, whereas society should base its decisions on social returns.) Also, if the social rate of return to primary school exceeds that for higher education, this in turn suggests that primary school is a better social investment than higher education.

Such analyses were undertaken, and concluded that the difference was greater in primary education than in higher education, and therefore that government action was more justified in the former than in the latter. But the standard rate-of-return analyses stopped there, consistently failing to reflect that the benefits of higher education extend well beyond the incremental earnings accruing to those individuals who receive it.

an economy is less likely to develop when they are chosen from the richest, rather than the most talented. The Task Force challenges the notion that public investment in higher education is socially inequitable. This notion rests on the argument that university graduates constitute the future elite of society, and already have the advantage of tending to come from the better-off families and are thus not deserving of public subsidy. This argument overlooks two self-corrective tendencies. An educated and skilled stratum is indispensable to the social and economic development of a modern society, giving benefits to the society as a whole and not merely to those being educated. In addition, higher education has acted as a powerful mechanism for upward mobility in many countries, allowing the talented to thrive irrespective of their social origins.

Broadening access to higher education is an ongoing process and work still needs to be done. This should include helping disadvantaged groups to overcome the endemic problems that exclude them from the system.

Equally important is a careful examination of ways to reform tuition and fee structures that exclude candidates from poorer backgrounds. And finally, measures are required to stamp out corruption in awarding places in universities.

Problems Facing Women and Disadvantaged Groups

Disadvantaged groups—whether they are racial, linguistic, or religious groups in specific societies, or women almost everywhere—find it difficult to compete for places in the higher education system. They have usually received inadequate primary and secondary schooling, making further progression in the education system much harder to achieve. In some situations, for example with South Africa's African and colored populations and India's scheduled castes, the discrimination has been more direct, including concerted action to prevent groups from reaching universities or securing faculty appointments.

Even if attitudes toward disadvantaged groups have changed, their members still face systemic discrimination. For many years, certain groups have been poorly represented in higher education. This means that the faculty is likely to be unrepresentative of disadvantaged groups, and there will be real or perceived problems of institutional discrimination. A lack of role models can lead to groups concluding that higher education is "not for them."

Higher education is also reliant on the rest of the education system, and those who have received little primary or secondary education are clearly far less likely to progress to higher education. A long-term solution therefore requires public investment at all levels of the education system, in order that larger numbers of well-prepared candidates from disadvantaged groups can compete for access to higher education.

Higher education systems need to find a way of reconciling the dual values of excellence and equity. In an ideal society, excellence is best promoted by policies that select a society's most creative and motivated members for advanced education. But selection based on prior achievement will only reinforce a history of discrimination and underachievement. Equally, programs to increase equity will prove unsustainable if they are seen to undermine the standards of excellence on which higher education is based. Merit criteria cannot be relaxed. Awarding degrees or certificates to people who do not deserve them cannot be in the public interest.

The answer seems to be to combine tolerance at points of entrance with rigor at the point of exit. Proactive efforts to attract promising members of disadvantaged groups must be coupled with well-designed, consistently delivered remedial support. With sufficient funding from public or philanthropic funds, this will clearly contribute to equity, but it has the potential to contribute to excellence as well—with institutions drawing their intake from an ever-widening pool.

Tuition and Fee Structures

Well-prepared and talented students face difficulties in gaining access to higher education when the costs of education exceed their means. These costs include tuition fees, room and board, books and materials, and access to technology, as well as income that is foregone while attending school. This problem, which is of course particularly limiting at low income levels, is aggravated by the poor functioning of financial markets in many developing countries. This means that students cannot secure loans at reasonable rates to finance their schooling. Using public funds for scholarships, fellowships, or loan schemes, thereby lowering cost barriers for talented students who would otherwise be excluded, is economically sound and a time-honored function of public funds. In countries that have diversi-

fied systems of higher education, it is in the public interest to reduce cost barriers to private as well as to public institutions.

Corruption

With higher education offering such clear private benefits—both economic and social—corruption in the awarding of university places within some systems is unsurprising. Every higher education place awarded through corruption gives rise to the possibility that a less deserving candidate has been substituted for a more deserving candidate. If the problem is endemic, an education class that fails to reflect the true distribution of aptitude and talent in the society will develop. Even minor instances of corruption are corrosive, increasing the possibility of disharmony within an institution and compromising its reputation.

Research and the Public Interest

One of the most powerful arguments for a public interest in higher education is the value to a country of a well-developed system for research and generation of knowledge. This is of increasing importance within the emerging knowledge economy, allowing a country not only to generate new knowledge, but also to engage in scholarly and scientific commerce with other nations.

Privately produced and held knowledge, whether based on military secrecy or commercial investment, has a role to play in society. However, basic research and fundamental knowledge generation thrive where new findings are widely shared and are available for testing and refinement within an open forum. Public support of knowledge generation is essential in developing countries.

Basic, nonproprietary research can be located in any number of institutions (national laboratories, government agencies, and private sector research institutes), but is especially well suited to universities and other higher education bodies. Research universities—most commonly public institutions—at least in principle integrate a number of practices that are highly conducive to knowledge generation. These include ideological neutrality in the selection of research topics, peer review and scholarly publication, close links between research and teaching, and the synergies that result from collecting the full range of disciplines in one institution (or integrated system of institutions).

A strong research system at the national level opens up the possibility that substantial additional public benefits can be realized through international links. Not all knowledge can or should be internally produced, when a worldwide system of basic knowledge production offers the classic economic benefits associated with specialization and exchange. International involvement helps countries guard against parochialism and remain open to broader economic, intellectual, technical, and social possibilities. Institutions of higher education, especially research universities, are particularly well equipped to facilitate the flow of new knowledge and to disseminate it internally once it is imported. Exchanges of both faculty and advanced students need to be facilitated, along with participation in international conferences and research projects. Nations must also act to remove legal restrictions on the flow of scholars and ideas, and ensure that there is adequate funding for this important work.

Publicly funded knowledge exchange also offers an international public good. Profit-based research is designed to capture and commercialize the benefits it generates, not to make them universally and freely available. In large measure, academic research stands outside these commercial transactions. Internationally, higher education is an intellectual commons represented by the invisible college

of independent scholarship, knowledge production, and scholarly training. This intellectual commons allows the world to tackle a number of widely recognized international challenges: emergent diseases that move easily across national borders; invasive species that damage sites far removed from their point of origin; and climate fluctuations that disturb traditional growing seasons in widely scattered parts of the globe. In addition to these problems that migrate internationally, issues such as technology application or biodiversity protection emerge in a variety of settings and benefit from comparative examination.

It is difficult for any single nation to justify investing heavily in research focused on transnational problems, when other nations can benefit without having contributed. Creating this knowledge is in the public interest of all nations, but it needs supranational public investment if it is to be provided. A network of research universities and institutes is a natural mechanism for advancing the required research agenda. Public health and medical schools can collaborate on designing and managing a global surveillance system on emergent diseases, for example, while agricultural faculties and research institutes can do similar work on invasive species.

International knowledge exchange relies on each nation meeting international standards of higher education, both formal and informal. For example, a number of professions, including engineering, medicine, accounting, international law, and epidemiology, have developed performance standards that are generally recognized worldwide. Ensuring that the graduates of each nation's higher education system meet those standards allows those graduates to compete in international markets. It also allows nations to work on a level playing field with international agencies and multinational businesses. For example, negotiating the terms of structural adjustment policies necessitates a competence in economics that matches that of the international donor community. Similarly, ensuring the effective operation of tradeable permit systems to mitigate global warming requires scientific competence within all the nations engaged in the trade regime. Attracting direct foreign investment relies on the ability to negotiate successfully with international business, which is likely to be attracted by a high-quality, professional workforce. It is the educated people of a nation, even of a poor nation, who will assert their nation's interest in the increasingly complex web of global economic, cultural, and political interactions. Without better higher education, it is hard to imagine how many poor countries will cope.

Improving higher education is therefore in every country's interest, and has legitimate claims on public funds. We also underscore the responsibility of international donors to redress current imbalances in research capacity across regions, so that every region can participate in international efforts to address key global challenges. Libraries are a crucial resource in this effort. Their improvement deserves urgent consideration, an initiative that could be greatly facilitated by advances in information technology.

The globalization of higher education can have damaging as well as beneficial consequences. It can lead to unregulated and poor-quality higher education, with the worldwide marketing of fraudulent degrees or other so-called higher education credentials a clear example. Franchise universities have also been problematic, where the parent university meets quality standards set in the home country but offers a substandard education through its franchised programs in other countries. The sponsoring institution, mainly in the United States or Europe, often has a "prestige name" and is motivated by pecuniary gain, not by spreading academic excellence to developing countries.

Higher Education and Democratic Values

Higher education has the additional role of reflecting and promoting an open and meritocratic civil society. Civil society is neither state nor market, but is a realm that links public and private purposes. Within this realm, higher education promotes values that are more inclusive or more "public" than other civic venues, such as religious communities, households and families, or ethnic and linguistic groups. Higher education is expected to embody norms of social interaction such as open debate and argumentative reason; to emphasize the autonomy and self-reliance of its individual members; and to reject discrimination based on gender, ethnicity, religious belief, or social class. The best higher education institution is a model and an impetus for creating a modern civil society. This is an ideal that is not often realized, but is nevertheless a standard against which to measure national systems.

More generally, a society that wishes to build or maintain a pluralistic, accountable democracy will benefit from a strong higher education sector in two respects: the first is the task of research and interpretation. A society's understanding of what form of political democracy will best suit it can be advanced on the basis of debates and research that start in universities and colleges. This is primarily the responsibility of the social sciences, but the humanities also have a key role to play. Higher education in the humanities is home to the most careful reasoning about the ethical and moral values important to that society. It joins the other disciplines in its respect for objectivity and for testing ideas against observation—with the experience of all societies, across history, upon which to draw.

Second, higher education helps to promote the enlightened citizens who are necessary for a democracy. It achieves this by instilling the norms and attitudes crucial to democracy in its own students, who then become the teachers, lawyers, journalists, politicians, and business leaders whose practices should promote enlightened citizenship across society. Higher education also contributes insofar as it demonstrates pluralism, tolerance, merit, reasoned argument, and other values that are as critical to democracy as they are to the educational process.

The deeper values promoted through higher education extend beyond those necessary for the design and preservation of democracy. Along with other cultural institutions, universities and colleges ensure that a society has a shared memory. This is important even if the memory is painful, as it is for societies trying to escape a racially or ethnically intolerant past, or a totalitarian and fearful history. Painful national memories, as much as celebratory and uplifting memories, constitute part of the culture from which the future is built. Higher education is a natural home for the study and teaching of history. It provides the research that in turn leads to a history and civics curriculum in primary and secondary school.

In pointing out these ambitious public responsibilities, the Task Force is not so naive as to presume that they are practiced always or everywhere. Higher education institutions have been home to moral cowardice as well as to moral courage. A critical social science was sustained in despotic Latin American countries only when its intellectual leaders fled universities and established independent research centers. Universities in South Africa collaborated with apartheid, and universities in Nazi Germany with anti-Semitism. Such instances of moral failure recur across time and place—not often, but often enough to remind us that universities have to earn the right of moral leadership.

Failures notwithstanding, societies have historically looked to higher education as a venue

for reasoned discourse rather than partisanship, for tolerance rather than discrimination, for a free and open search for truth rather than secrecy or deception. For these reasons, universities are frequently the first targets of dictators.

To the extent that a higher education system meets these public expectations, it contributes to a set of values necessary for democratic practices to flourish. While it is, however, very difficult for universities and colleges to disconnect themselves from the politics and culture of their country, at best they aspire to reflect where their societies want to be, rather than where they are.

Conclusions

All types of higher education institutions—including those run for philanthropic and profit motives—can serve the public interest. The system as a whole needs to benefit from the vigor and interest of the market and the state. At the same time, it must not be dominated by either. Too close a reliance on market forces reduces public benefits, a danger that may be magnified by the globalization of investment opportunities, thereby introducing priorities at odds with long-term national needs. However, the private benefits, both to individuals and in the aggregate, are a powerful and legitimate justification for higher education. No system of higher education should forego the advantages of the compelling logic of private investment for private benefit.

Equally, higher education must avoid being captured by the short-term partisan interests of the government in power, or being stymied by bureaucracy. This is not to dispute that the state has a legitimate interest in the quality and scope of higher education. This chapter emphasizes the need for state policies to protect and promote the public interest in higher education. But a critical principle of those state policies is sufficient autonomy for higher education. Subordination to government pressures or short-term political considerations will not create a system of higher education that serves the long-term interest of the public.