

## **Strategies for Meeting Rising Demand, with Fewer Government Resources**

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Virtually all countries around the world are facing the challenge of consistently meeting the rising demand for higher education. A few countries, such as Norway and Saudi Arabia, have decided and been able to devote enough public resources to meet the challenge of adequately funding growing demand. However, for most countries, the challenge remains how to do more, with fewer public resources, to maintain accessible higher education systems of high quality, in the future.

Three basic strategies are available to meet this challenge: raising the prices for public higher education to offset the constraints on public funds; reducing resources per student, either by achieving greater efficiencies or enrolling more students; and encouraging the expansion of the private sector, to reduce the strain on taxpayer funds to pay for higher education.

In considering the relative merits of these three strategies, it is important that an essential trade-off and dilemma be recognized—namely, that it is very difficult to expand access and to improve quality at the same time. Since the

policies that will expand access often detract from quality, actions that are likely to improve quality are often achieved by limiting access.

Moreover, the roles of higher education institutions and governments are often in conflict with regard to promoting access and protecting quality. Maintaining or improving quality is the top priority of institutional officials and faculty, who would like to maximize resources per student. By contrast, ensuring or expanding access is the primary objective of government officials, as they would like to maximize access and to promote efficiency by minimizing resources per student. Thus, the task of meeting rising demand when public resources are stable or declining is complicated by this large difference in traditional roles and responsibilities.

### **INCREASING TUITION FEES**

The most frequently used strategy for dealing with limits in public resources in most countries is increasing the revenues generated from tuition fees and other charges. This cost recovery approach can be achieved, in one of several ways. One is to increase the level of tuition fees for all current students. Another is changing the mix of students, by increasing the number of international or out-of-state students who pay higher fees. Still, another approach is to establish a parallel fee structure, in which students who do not gain entrance on the basis of entrance exam scores may enroll as “nonregular” students and pay fees that are much higher than for the “regular” students; these parallel fees often equal or exceed the full per student costs of education. These parallel fee structures are particularly prevalent in certain regions, including eastern Europe and a number of Asian countries.

Maintaining or improving quality by ensuring adequate levels of resources per student is the primary purpose of any kind of fee increase. Yet, higher fees can allow for increased access, if they are accompanied by expanded enrollments. If, on the other hand, prices are increased while enrollments are not, the result almost always will be more limited access. Higher prices also can deter students with more modest means from enrolling, unless accompanied by increased amounts of student financial aid.

### **REDUCING RESOURCES PER STUDENT**

Another frequently used strategy, to address the mismatch between growing demand and limited public resources, is to reduce the amount of resources devoted to each student. One format for institutions is to cut programs and staff or find more cost-effective ways to teach and increase operational efficiency. This route to greater efficiency often includes shrinking the size of the enterprise, by capping enrollments, so that adequate resources can be provided to the students who do enroll. Another avenue to reduce resources spent on each student takes the opposite tack of increasing enrollments, thereby reducing resources per student. Governments can encourage more enrollments by providing additional student financial aid, to stimulate more demand or by placing a floor on the number of students, which institutions may enroll—thereby allowing the number of students to increase beyond the levels already funded by government.

Approaches for improving efficiency can be found in countries throughout the world. Institutions in many countries, states, and provinces deal with cutbacks in government funds by cutting programs and staffs—often the first response to reductions in public funds. In a number of instances enrollments

are capped to ensure adequate resources per student and to minimize future budgetary exposure, from student financial aid being awarded to more students. New Zealand and England are two prominent examples of countries that have capped enrollments, not because it would lead to more public support of institutions but because student loan subsidies would rise.

Many countries allow institutions to increase their enrollments—beyond government-funded levels, without providing more government funding for these additional students. Economic theory suggests that these institutions should expand their enrollments, as long as the fees received are equal or greater than the marginal costs attached to these additional students.

These approaches create different effects on quality and access. Efforts to cut costs and programs to achieve efficiency typically lead to lower quality—while capping enrollments detracts from access—but may improve quality as it will lead to more resources being spread over fewer students. On the other hand, providing more student aid or placing a floor on enrollments could increase access, but it may well do so at the expense of quality—as existing resources are being spread over a larger number of students.

If institutions retain the fees paid by additional students, the negative effects on quality will be offset partially or fully by the increased resources generated by the additional fees. Similarly, if enrollment expansions are accomplished simply by increasing class size and student/faculty ratios, quality is likely to suffer. But if low teaching loads are increased or programs with low enrollments are targeted for expansion, there could be little adverse impact on quality or it might even be improved.

## EXPANDING THE PRIVATE SECTOR

The third strategy for meeting demand in tough times is to allow the private sector of higher education to grow. Thus, governments decide that they cannot meet demand, by funding expansion in the public sector, and instead encourage the private sector to grow to accommodate surging demand. This encouragement can take several forms, including loosening the regulatory environment and allowing government-funded student aid to be portable to students attending private institutions. Vouchers or student loans are two examples of this approach.

Asia is perhaps the region that has most adopted the private-sector strategy. In South Korea, Japan, and Indonesia, far more than half of all students enroll in private institutions, and a number of other Asian countries also have large numbers of private-sector students. The Middle East and South America are two other examples of regions that have developed large private sectors of higher education.

This private-sector emphasis obviously is designed to expand access without correspondingly increasing public resources to meet demand. But it also raises important questions about quality, as private-sector institutions often are of lower quality than their more well-funded public counterparts. The United States is an obvious counterexample to this generalization, as American private institutions often are better funded than public institutions. Quality becomes an even greater concern when for-profit institutions are the primary form of private provider, as they often focus on attracting low-income students who often are particularly unprepared to do college-level work. One means for counteracting this very legitimate concern about quality is to ensure that strong quality-

assurance systems are in place that will prevent the emergence and continuation of low-quality institutions.

In sum, countries would be well-advised to consider each of these approaches, in addressing concerns about how to meet rising demand with limited public resources. Each approach has its advantages and disadvantages with regard to quality and access. The right mix depends in large part on the history and the circumstances of individual countries.