



Economist.com

PRINT EDITION
SPECIAL REPORT

PRINTABLE PAGE VIEW SPONSORED BY

XEROX.

[About sponsorship](#)

Higher Education

Free degrees to fly

Feb 24th 2005

From The Economist print edition



Already a big global business, is higher education poised for take-off?

[Get article background](#)

THERE used to be three near-certainties about higher education. It was supplied on a national basis, mostly to local students. It was government-regulated. And competition and profit were almost unknown concepts. As most education was publicly funded, the state had a big say in what was taught, to how many and for how long. Insofar as it existed at all, competition was a gentlemanly business; few educators thought much about customers, fewer about profit.

How that has changed. Higher education is now international in a way it has not been since the heyday of Europe's great medieval universities—and on a vastly greater scale. Numbers studying abroad were statistically negligible only two decades ago, says Andreas Schleicher, of the Organisation for Economic Co-operation and Development (OECD), a Paris-based think-tank. Now growth is soaring: 2m university students—approaching 2% of the world's total of 100m, according to the International Finance Corporation—were studying outside their home country in 2003. Since the late 1990s the higher-education market has been growing by 7% a year. Annual fee income alone is now an estimated \$30 billion. Private, profit-seeking institutions are still a minority, but almost all universities are beginning to compete for talent and money. That is breeding independence of government, both financially and psychologically; inexorably, the state's role is shrinking.

The two big trends, of internationalisation and competition, feed each other. The more that universities tailor their offers to foreign students, the more attractive they become. And the

more that students hop between countries, the more their choices count rather than the wishes of a particular government. German politicians may be willing to tolerate overcrowded universities for political reasons, but they cannot stop German students unhappy with this policy from going to Britain, where undergraduate teaching is much better. Britain's government may be willing to constrain the best universities by capping fees and fiddling with admissions rules to help poorer students gain places—but it cannot stop more of the richest and brightest students turning to America instead. American politicians, worried about terrorism, tightened visa rules—but their universities lost out as the best brains went elsewhere. Just as globalisation has let capital and labour search the world for the best deal, the same is happening with students, academics and donations.

The idea of the student as consumer is a new and subversive concept in much of the world. In Europe and many developing countries, the customer in education for most of the past century has been the government: it wanted the nation's brains educated in the most useful disciplines and in a cost-effective way. Universities may have seen themselves as temples of learning, but the taxpayer was often paying for incense as well as priests and disciples. In short, the system resembled a Soviet-style planned economy. Now that system is facing a transition to what, in effect, is a market. The change will be messy and painful.

Most students, like customers everywhere, are looking for the best deal: how much time and money gains them what benefit? That does not necessarily mean they will favour dull, utilitarian courses. After all, food shoppers seek taste as well as nutrition. A university that teaches mind-stretching subjects of no direct relevance to earning power can still flourish. But to attract the best students it will still have to market its strong points—its excellent teaching and awesomely beautiful buildings, for example.

In much of Europe, though, money does not yet play a role in students' calculations. Where fees are fixed or non-existent, the only real choices are about where and what to study. And even that may not vary much: most undergraduate tuition, in particular in most continental European countries, is similarly skimpy.

So the choosiest students—meaning the brightest, most ambitious and richest—often go abroad. Some 112,000 students from elsewhere in the European Union study in Britain already. But the fastest growth in students is coming from China. Around 38,000 study in Britain now—the result of 50% annual growth since the late 1990s. The British Council, a state-funded marketer of British culture, reckons the number could double by 2010. Chinese students come to Britain because their own country's fast-expanding system of higher education still lacks the quantity and quality they seek. The OECD estimates that the number of Chinese university students will be 16m this year, up from 11m in 2000.

In the recent past, more went to America—roughly 60,000 annually—attracted by academic excellence and generous scholarships. But applications for 2004-05 plunged—by 45% in the case of graduate students from China, and 30% for those from India. That was chiefly because of tougher visa rules, which the American government is now, belatedly, partially relaxing. But growing competition was also a factor. The number of students from China in Australia, for example, rose by 47% in 2003, and those from India by 52%, although overall Australia's overseas-student numbers dropped by a tenth. France's *Grandes Ecoles* (specialist independent postgraduate outfits) such as ESSEC, a business school, are competing for the same market, with targeted courses taught in English. So is the Netherlands.

Brains without borders

Foreign students are usually charged higher fees, but they are not just cash-cows. Universities like their motivation, and the cosmopolitan flavour they bring to campuses. The better your students, the better your reputation, and hence your chances of attracting more good students. Even Oxford, Britain's oldest university, is planning to market itself aggressively overseas. In the past, says John Hood, its new vice-chancellor, "we waited for foreign students

to approach us.”

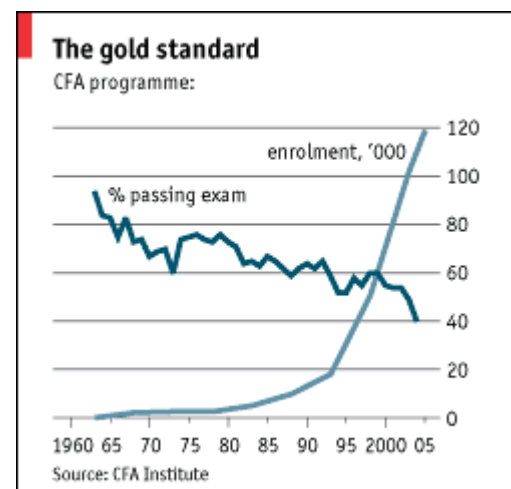
But what the customers want may not be what the universities are used to providing. British universities are scrambling to adapt everything from teaching practices to student social life to meet the needs of students from different cultures and backgrounds. Arrangements that suit some, such as lively classroom discussions, can jar for others from a more deferential academic culture, for example.

Some changes go much deeper. Increasingly, British and Australian universities are opening campuses abroad in places such as China, Malaysia and Dubai, to teach, they hope, more foreign students, more cheaply. The University of Texas is increasing its ties to London's University College, buying a large building on the campus, and swapping students, staff and know-how. Texans like the fun of London; Londoners like lavish Texan budgets.

There are doubts about the profitability of some of these ventures—in particular, some British universities have found themselves landed with expensive commitments from over-enthusiastic investments. But however such cross-border education is delivered, the important trend is that the traditional bundle of services provided by a university is unravelling.

In the past, the same people taught and examined their students. For the most part, if you wanted a Cambridge degree you studied at Cambridge. But from a business point of view, that represents a wasted opportunity. A university can examine far more students than it actually teaches, and with a strong brand it can trade on its reputation for quality by licensing other people to teach its courses. Chicago's Kellogg business school, for example, teaches around half of its students through local partners in places such as Israel and Hong Kong. It controls the curriculum, inspects standards and issues qualifications. But the actual teaching is outsourced and offshored.

The purest example of this comes from the world of professional vocational training—where governments' influence is at its weakest, and consumer demand is most focused. The Chartered Financial Analyst (CFA) qualification is roughly equivalent to a specialised postgraduate finance degree, including a mixture of economics, ethics, law and accountancy. It is much liked by employers in financial services. Whereas there are tens of thousands of finance degrees available around the world, ranging from the excellent to the worthless, there is only one CFA, managed and examined by an American association of financial professionals, the CFA Institute. It used to be just an American qualification. But explosive growth (see chart) has made it, in effect, a global currency.



To take the CFA, candidates need only to register, pay fees of \$1,455 and turn up to the one of 274 test centres around the world. Most of them study with private providers, who use the freely accessible curriculum and reading list. But some 40 universities are now teaching it as part of their postgraduate courses.

So, just like their counterparts in manufacturing industry 20 years ago, rich-world universities are concentrating on businesses that make money, dumping lines that do not and shifting production to cheaper markets abroad. Last month Oxford unveiled plans to cut the number of loss-making undergraduate places for home students (where the government sets the price), and increase the number of graduate and foreign students (where the fees are deregulated). Other British universities will follow soon.

In bed with business

Such universities are not only operating more like businesses. They are also operating more closely with them. Kaplan, a big education company owned by the same firm that owns the *Washington Post* newspaper, has done a deal with Nottingham Trent University in Britain to run a foundation college for overseas students. BPP, a firm that is Kaplan's big rival in Britain, has done deals with British universities so that people taking its professional exams can gain academic postgraduate degrees at the same time.

There are two big dangers here. One concerns quality. At the bottom end of the education market, qualifications reflect only payment—at worst, through bribes. Corruption in Russia has degraded the value of degrees from its once-famous universities. Foreign universities that have set up there are sometimes little better.

That is not a new problem. But globalisation and competition make it much harder to control. Who is to say that a minor British university's outpost in, say, Dubai, offers degrees that are as good as the home institution's? For some degrees, such as MBAs, there are credible international rankings. But sorting out the relative rigour of every course from every university is impossible. Such confusion creates temptation, particularly when it is combined with the need to keep customers happy. A university that gives failing grades to a large number of fee-paying students puts its future revenues at risk.

In theory, universities have a long-term interest in protecting their brand. But quality control is one of the great unsolved problems in education, even at Harvard, which, thanks to its reputation and a \$20-billion endowment, could hardly be better buffered from the pressures of the market. Certainly government regulation does not seem to have helped much: British universities are subject to a detailed and intrusive form of inspection from a body called the Quality Assurance Agency, lovingly known as the KGB of higher education. But it is hard to find anyone who says that the steady rise in first-class degrees reflects only increased student brilliance.

This is a further reason for separating teaching and examining. There have been no allegations of dumbing-down and grade inflation with the CFA, where the pass rate has dropped from over 70% in the 1970s to only 40% now. Jeff Diermeier, the head of the CFA Institute, says that business schools struggle to match the time that his institute can devote to keeping the curriculum up to date and rigorous. The higher-education marketplace of the future may need more such central bank-like outfits as guardians of standards.

State of play

The second big problem is government interference. In many countries, the idea that the state should control higher education is barely challenged. In much of continental Europe, even charging tuition fees or allowing universities to compete are seen as dangerously radical notions. After years of agonising, Germany agreed only last month to let its universities charge fees.

Government intransigence can be a big obstacle to any change in higher education. The most extreme example is Belarus, which has simply closed independent universities that had set up there and refused to issue exit visas to students wanting to enrol abroad. The Belarusian leader, Alexander Lukashenka, says that such study "poisons the mind". In South Africa, the government has thrown up so many obstacles that Bond University, a big Australian investor, has pulled out altogether.

Education is on the agenda of the next round of international trade talks, but changes are unlikely. As with other forms of protectionism, national governments claim that they are acting in the interests of consumers. Yet the more the market grows, the less tenable that position becomes.

Despite all this, the private and independent higher-education sector is growing fast. Even in

America, where for-profit outfits have been plagued by scandal, expansion is continuing. The University of Phoenix, America's largest private university, which specialises in the high-pressure marketing of online and part-time degrees, is expanding overseas. It already operates a small campus in China and plans to open in Mexico. Kaplan has bought Dublin Business School, which also has a campus in Dubai and is planning new ventures in Europe. The University of Chicago business school is opening a campus in London—the first big American university to do so. BPP is applying to the Privy Council, a medieval relic that regulates such things in Britain, to award degrees.

BPP's success in attracting 50,000 part-time and 3,000 full-time students has already made quite a dent in the public-sector universities' customer base, although the company is regarded with disdain by many of its competitors. One London vice-chancellor, whose university's postgraduate courses are seen by BPP as a prime poaching target because of their low quality and high price, affects not even to have heard of BPP's existence. With degree-awarding powers, that should change. BPP is also expanding fast abroad.

Opening for business	
Regulatory framework for foreign providers of higher education	
No regulations: Foreign providers free to operate without seeking permission	Austria, Czech Republic, Denmark, France, Indonesia, Mexico, Nigeria, Portugal, Russia
Liberal: Minimum conditions only, eg, outsiders must be recognised in home country	Argentina, Bahrain, Estonia, Finland, Latvia, Netherlands, New Zealand, Norway, Sweden, Switzerland, Britain, USA*
Moderately liberal: Formal rules, eg, on curriculum and registration, not burdensome	Australia, Bangladesh, China, Egypt, Hong Kong, Hungary, Israel, Singapore
Becoming more restrictive	India
Liberalising	Japan, South Korea
Very restrictive	Bulgaria, South Africa, Belgium (francophone), Greece

Source: Observatory on Borderless Higher Education *Varies by state

Although governments' attitudes vary (see table), only a totalitarian state could maintain complete control of higher education. The fastest change will be at the margins, driven by students seeking alternative offerings. Wrong-headed governments risk not only losing international market share, but also their country's best students.

So the direction is clear: competition can raise standards for home and foreign students alike, and the speed with which it emerges depends to a large extent on universities' freedom from government. How fast that comes will depend on university management, which is often strikingly slow and bureaucratic. The wet breath of government on administrators' necks is partly what makes decision-making soggy—but state control is not the only culprit. Even rich, independent American universities can be badly run.

If governments want to change that, allowing failure to bring its natural consequences would be an excellent place to start. Currently, weak universities do not fail in the way that their poor performance warrants. An ailing state-financed university may be shrunk, or have its management changed, but it will not go bust or be bought in the way that, say, a for-profit outfit would. It is difficult for a successful university to take over an ailing one, or for two complementary campuses to merge.

The challenge of change

Running universities in a way that suits a competitive environment may mean some uncomfortable changes. But it does not mean necessarily adopting a corporate model, with a board of directors and a chief executive. A non-profit university exists, ultimately, so that its members can teach, think and learn. Making them into "staff"—mere shopfloor workers on an academic production line—risks losing the ethos which has given universities their character

and value.

There is no single answer to this. But the pressures of the market are creating an increasingly segmented system. The clearest opportunity for profit is in teaching, either in co-operation with existing universities or in competition with them. That will be strongest where student choice is strongest—ie, courses whose prices are deregulated, for which there is no state-subsidised alternative and whose connection to future earning power is strongest. Business schools and professional training are already examples.

The danger for old-style universities, particularly in Britain and continental Europe, is that government subsidy and control continues at a debilitating level, but is not quite bad enough to be intolerable. That will not just harm universities in the state system. It will also distort the market. Competition and internationalisation in education have already benefited a wealthy, brainy minority. Plenty more students should gain similarly in future, if only universities are free to fly.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.