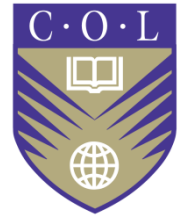


The Private Supply of Public Goods: Contradictions, Challenges and Choices?



2006 International Investment Forum for Private Higher Education

*International Finance Corporation Headquarters
Washington, D.C.*

1 February 2006

*Remarks at the opening dinner by
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Introduction

Good evening. Some believe that after-dinner speeches are a barbaric invention, like breakfast meetings. They tell the story of an entertainment in Rome during the brutal reign of the Emperor Nero. To amuse the populace Nero would arrange for fights, if you could call them that, between lions and various types of undesirables such as Christians.

The story goes that one day the Coliseum was filled to capacity with the Roman plebs, baying to see blood, when a group of Christians was led into the arena. The door to the lions' cage was opened and the lions came bounding out and headed for the Christians. But then one of the Christians stepped forward and was seen to speak to the leading lion, whereupon it snarled at the other lions and they all lay down in the sand.

The crowd was incensed and shouted for action, but the lions would not budge. Eventually Nero called the leading Christian over to the Imperial Box. 'What did you say to the lion?' Nero asked. 'I told him there would be speeches after the meal', said the Christian.

However, the conference organisers have asked me to speak to you in the hope that this evening will engage your minds as well as your stomachs. I come from a tradition where the after-dinner speech can be

an acceptable practice, provided it is short and humorous. I fear that humour is out of place at the World Bank, which takes itself very seriously and calls for gravitas. As for brevity, although research shows that after twelve minutes most of the audience quit listening to the speaker and indulge in erotic fantasies I assume those who attend forums on private investment in higher education are made of sterner stuff. Nevertheless, as Henry VIII said to each of his six wives, 'I will not keep you long'.

My task is to evoke some of the themes of this forum, both explicit and implicit. Giving a speech a title helps to focus the speaker's mind, so my title is *The Private Supply of Public Goods: Contradictions, Challenges and Choices*.

The Private Supply of Public Goods

We are here to discuss higher education. Higher education is a public good, like the fire service or the road network. The public interest in accessible higher education is less obvious than that of having a fire brigade on hand if your neighbour's house catches fire, or than having a road from your home into town.

However, since there is a pretty good correlation between the state of development of a society and the proportion of people who have had a higher education, an accessible higher education system is in the public interest. It is both a private good and a public good.

One basic question, which the IFC has implicitly answered negatively by holding this forum, is whether the private supply of a public good is a contradiction. By tradition governments provide public goods like fire services, police services and defence as the best way of ensuring accountability to the public. Private armies and militias are a sure indicator of lawlessness and anarchy.

But need this principle apply to education? Does the fact that education is a public good mean that it has to be supplied by the state? The view that it does can be challenged on grounds of practice, principle and pragmatism.

The argument from practice is that private bodies, notably churches and foundations, were providing education long before governments took an interest, although it must be said that the purpose of government involvement, when it came, was to make education truly a public good by widening access to it.

I am a beneficiary of that. For nine years I had the privilege of attending a secondary school, Christ's Hospital, which had been founded by England's King Edward VI in the City of London in 1553 to educate orphans and street children. All countries gradually increased the state role as they decreed that schooling should be compulsory, although in most public and private schools co-exist.

The argument from principle concerns the right role of government. It holds that apart from services like defence, government's most effective role is to monitor and regulate the provision of public services by others, not to provide them itself.

The argument from pragmatism reflects demography and demand. The world's population is still growing, the median age of people in many developing countries is around 20 years and an increasing proportion of them want education at all levels.

For example, I was in Malaysia last month as the government announced that it wanted to increase the number of students enrolled in higher education from 600,000 to 1.6 million in the next four years, a 260% increase. I went from there to Mauritius, which has recently passed legislation to create a third university for its 1.2 million people. It only added a second university five years ago.

In this era of lifelong learning there is simply no way that governments can provide, at no cost, all the education that people will need throughout life. Governments will have to focus their contributions.

The World Bank, which some years ago flirted with the idea of fee-paying private education at the primary level, now believes that the Millennium Development Goal of Universal Primary Education will only be achieved if education at that level is free, meaning that it must be paid for from the public purse with no hidden costs.

If you accept that principle for basic education, then something has to give at the post-compulsory level, which I shall simply call higher education. No government has enough money to fund all higher education provision so the choice is between a public-sector monopoly giving inadequate provision and drawing on both public and private sectors to meet the demand.

So I conclude that the private provision of the public good of higher education is not a contradiction. I address the rest of these remarks to private, for-profit providers.

Two Challenges for Private Providers

I shall focus on two challenges. The first challenge is to use new approaches to teaching and learning in a quality manner. The second is to combine accessibility for students with returns for the investor. I start with new approaches.

New methods or old?

New methods of education have always attracted private providers. When Britain introduced the Penny Post in 1840 Isaac Pitman started offering a correspondence course in Shorthand almost immediately and private providers subsequently dominated the correspondence education industry.

Naturally there were some bad apples in the barrel. In the absence of regulation, maximising student success often took second place to maximising corporate profits. Some commercial correspondence schools collected all fees upfront and relied on early student drop-out to boost profits.

In 1970 Jessica Mitford blew the whistle in the USA with an article in the Atlantic Monthly, 'Let us now appraise famous authors', that was a devastating exposé of the racket then masquerading as one of the

best-known US correspondence schools. She later described entertainingly, in her 1979 book *Poison Penmanship: the Gentle Art of Muckraking*, how that article caused a flurry of regulation of correspondence teaching. UNESCO helped to establish guidelines for good practice.

At the same time some governments decided that distance learning was too important to be left to the commercial sector and set up public-sector open universities. Some of these have acquired an enviable reputation for quality and effectiveness. For example the UK's Open University, which has nearly 200,000 students, ranks 5th out of 100 British universities for the quality of its teaching programmes, one place above Oxford, my own alma mater. In a recent survey of student satisfaction it achieved first place, as did Athabasca, Canada's Open University, in a similar survey in Alberta.

This proves that distance learning, which I shall call eLearning because today it includes extensive online components, can be of better quality than face-to-face instruction. This really is not surprising since eLearning has to be developed and delivered in a much more systematic way. It also has a very different cost structure, in which a higher upfront investment is rewarded by lower marginal costs provided you achieve volume.

There is a massive role for the private sector in providing eLearning both within nations and across national borders. I shall talk about that on Friday. Some of you may be aware of C.K. Prahalad's book, *The Fortune at the Bottom of the Pyramid*. He encourages companies to take an interest in the four billion poorest people in the world.

There is not time to summarise his research here but one quote gives the flavour: 'for companies with the resources and persistence to compete at the bottom of the world economic pyramid, the prospective rewards include growth, profits and incalculable contributions to humankind'.

I believe that the combination of increasing connectivity and the growing availability of open educational resources now allow eLearning to change the cost structure of higher education radically. So radically that educational companies could now both make fortunes and provide incalculable benefits to millions by targeting the bottom of the pyramid.

The numbers are huge. I noted a moment ago that Malaysia is expanding its higher education system. Its target is a 35% age participation rate. Achieving that figure amongst the four billion poorest people in the world would yield 150 million students, which is far more than the total numbers currently enrolled in higher education in all the countries of the world put together.

The challenge is ethics and quality. ELearning is even more attractive to unscrupulous operators than correspondence education because you can close down a website even faster than a post-office box. Cross-border higher education makes students particularly vulnerable to scams. The answer is for private sector providers to create an ethic of integrity and to observe any relevant quality regulations and guidelines.

If you argue that government should monitor and regulate higher education, rather than provide it, then

logically you must accept a role for governments in regulation and quality assurance. One example of them exercising that role is the Guidelines on Quality Provision in Cross-Border Higher Education that have been produced by UNESCO and the OECD. Private providers should commit unequivocally to respect these.

At the national level a mixed economy is emerging. The Government of Canada, for example, funded the development of quality guidelines for eLearning but has authorised a private sector firm to assess provision against these guidelines and issue a quality kite mark. Much more problematic, in my view, are membership organisations of providers that claim a quality assurance role for themselves. In such circumstances the temptation for mutual back scratching can be irresistible - and is frequently not resisted.

We can explore these issues at greater length during the conference. My simple point this evening is that the most massive business opportunity in educational history beckons for those who can use eLearning radically to change the business model of higher education and bring it to the billions that are currently deprived of it.

Already distance learning is becoming the mode of choice in the developing world. For example, it now accounts for 20% of university students in India and a majority of all African students in South Africa.

Combining access with profits

I turn now to my second challenge, which is to combine accessibility for the student with returns for the investor.

Since I am surrounded by people with a sophisticated knowledge of investment in higher education I will keep it simple. The heart of the issue is fees. Sitting here in Washington, the capital of a nation in which all higher education students pay fees, it is hard to appreciate what a hot issue fees for higher education are in the rest of the world. I don't only refer to the developing world. In the UK the political scars that Tony Blair carries for having raised university fees are as deep as those he got for taking Britain into the Iraq War.

Fees are a problem for those countries that made higher education free, that is to say totally subsidised by the state, in the days when only a tiny proportion of the population was expected to go to university. In those days entry to higher education was highly competitive but many believed - and still believe - that the combination of competitive entry and free tuition would produce equitable participation in higher education from all socio-economic groups.

In reality, research shows that this is simply not true. The profile of students in jurisdictions that combine a fees regime with arrangements for bursaries and loans for poorer students is more broadly-based than in those that preclude the charging of fees. This is a very important finding and one that governments are gradually finding the courage to act on.

I mentioned that I was in Mauritius three weeks ago. As is traditional for many developing countries, there are no tuition fees at the University of Mauritius. However, the Government of Mauritius pulled off the considerable coup of starting a second public university, the University of Technology of Mauritius, with a fees regime. None of the island's volcanoes erupted in protest, which means that the fees precedent is set for future new universities.

I mention this because what the public sector does in relation to fees clearly constrains the private sector. For a number of years in the 1990s I was a member of the Council of the University of Buckingham, Britain's only private university. It struggled to attract students at that time, which was before Tony Blair earned his scars, because there were then abundant places available in public-sector universities at zero or nominal fees. 'It is tough to compete with free', we used to say.

But as countries gradually introduce fees in the public sector, either because of a conviction that it is more socially equitable or because there is no financial alternative, the private sector finds itself on a more level playing field. This gives private institutions much greater latitude to set fees, which is important to their attractiveness as an investment.

I am not an investor, but I do understand that investing with guarantees of an income stream from fees is more attractive than investing with the guarantee that you can sell off the buildings if the enterprise goes belly up. I understand that the International Finance Corporation can help to support investment in higher education and that will be explained and discussed at this conference

I make the plea that as you design a fees regime for any institution that you wish to create or expand, you build in arrangements for bursaries, loans and scholarships right from the beginning. It will take time to build up sufficient funds for your admissions policies to be truly blind to student or parental wealth, but from the start the goal must be to attract a diversity of people. Only then can we truly say that private investment in higher education is making its contribution to widening access.

This is important for its own sake. Making higher education accessible to poorer students is a public good. But it is also important in fostering good relations with governments and the existing public sector of higher education. Things are changing fast in your favour.

Not long ago the World Bank was pretty hostile to higher education generally. Even after seeing the light it considered that higher education was a public preserve was reluctant for the IFC to get involved in it. That has changed. Governments that want to expand their higher education systems, as in the case of Malaysia that I mentioned earlier, now welcome private institutions and have mechanisms to support them.

Conclusion

My theme has been the private supply of public goods: contradictions, challenges and choices. I showed that there is no contradiction between calling higher education a public good and involving the private sector in supplying it. We've just explored two of the major challenges facing private higher education:

new approaches to delivery and role of fees. It only remains to say a word about choices.

These are exciting times. There is a burgeoning demand for higher education and many countries welcome the help of the private sector in satisfying it. The first choice is to get involved. Depending on where you choose to get involved you will need to make choices about what type of institution you create. Here I am thinking primarily of the choice between a bricks and mortar campus or a bricks and clicks organisation that takes advantage of the new technologies that are becoming available.

I hope that some of you will choose the bricks and clicks because the skills required to design and operate eLearning organisations sit particularly well with the private sector. That is because they are based on principles and practices that business understands, such as upfront investment, division of labour, specialisation, logistics, customer service, geographic distribution and economies of scale.

eLearning is an interesting combination of the industrial and service models. I urge you to attempt the radical changes to its cost structure needed to reach those at the bottom of the pyramid.

So I wish you well. The climate is favourable and I encourage you to get engaged. Winston Churchill once said that America would always do the right thing - after having exhausted all other possibilities. I can't tell you what the right investment is, but I do believe there are many promising possibilities.