

Private-Public Dynamics in Post-Communist Higher Education

Marie Pachuashvili
Budapest

Zusammenfassung: Die Privatisierung der Hochschulbildung markiert eine grundlegende Umwälzung der Hochschullandschaft in den Ländern Zentralosteuropas und der früheren Sowjetunion nach dem Zusammenbruch des Kommunismus. Dabei werden markorientierte Praktiken in den öffentlichen Hochschulbereich eingeführt, während parallel dazu die Anzahl

privater Einrichtungen wächst. Gestützt auf empirische Befunde wird im vorliegenden Beitrag diese Privatisierung und deren Einfluss auf die Entwicklung des Verhältnis zwischen öffentlichem und privatem Hochschulbereich untersucht. Dabei wird deutlich, auf welche Weise sich die Konkurrenz um Studierende zwischen beiden Bereichen in spezifischen Expansionsmustern niederschlägt. Aufgezeigt werden zudem die Strategien, welche private Einrichtungen entwickeln, wenn sich die Nischen, in denen sie agieren, durch die Privatisierung des öffentlichen Bereiches weiter verengen.

Die Prozesse, die in den Hochschulsystemen der ehemaligen kommunistischen Staaten stattfinden, folgen zwar internationalen Mustern, aber die Geschwindigkeit und die Intensität der Entwicklungen verweisen besonders deutlich auf starke Zusammenhänge zwischen privatem und öffentlichem Hochschulsektor. Zahlreiche politische und wirtschaftliche Rahmenbedingungen führten in den ersten Nachwendejahren zu einer Insuffizienz der öffentlichen Hochschulen hinsichtlich der veränderten Anforderungen seitens des Arbeitsmarkts und der Gesellschaft. Zugleich förderten dieselben Bedingungen die Entstehung und Entwicklung der neuen Privathochschulen. Die anschließenden Reformen der öffentlichen Hochschulen führten jedoch zu einem Rückgang der Studentenzahlen an den Privathochschulen. Die öffentlichen Hochschulen besetzten zunehmend Rollen, die sich der private Sektor zu Eigen gemacht hatte und sie verengten damit das Aktionsfeld privater Hochschulen. Die Wechselfälle

dieses Wettbewerbs zwischen privatem und öffentlichem Sektor – die Herausforderung der öffentlichen durch die privaten Hochschulen und die anschließende Herausforderung der privaten durch die reformierten und teils privatisierten öffentlichen Hochschulen – stehen im Zentrum dieses Aufsatzes.

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Higher education privatization characteristic to countries of Central Eastern Europe (CEE) and the Former Soviet Union (FSU) is the part of the powerful changes taking place at the broader socio-economic level since the 1990s. Most countries have witnessed rigorous privatization of higher education which includes public sector privatization on the one hand and the establishment and growth of private higher education institutions on the other. The extent and the nature of the former process in some post-communist countries have lead to a considerable convergence between the activities undertaken and missions pursued by two sectors in higher education. This blurring is mainly a result of public institutions taking on the roles most readily associated with the private sector, rather than private institutions exhibiting high degree of “publicness”. Showing almost complete distinctiveness on all dimensions that define private educational organizations, especially on those of ownership, finance and mission, private institutions widespread in the region are manifestly private. On the other hand, public institutions, while remaining under public ownership, have increasingly sought to engage in business-like activities in order to compensate for highly inadequate public funding. This has often meant little more than launching fee-paying sectors for students not winning the competition for state-funded places, but willing to bear the cost of their studies. The scope and extent of other forms of privatization activities, like selling goods, expertise and services remain limited. Nonetheless, the process has powerful implications not only for public but also for private sector dynamics. First of all, the need to attract more fee-paying students has compelled public institutions to respond to the labor market demand by providing training in highly demanded business oriented fields and often in several languages. In addition, the resolute attempt to undo communist practices characteristic to yearly years of independence has encouraged the provision of religious and theological studies within public sectors. According to the literature, such practically oriented focus and ethnic-religious appeal has been a hallmark of private higher education, often frowned

upon by national public institutions (Levy 1987, 1992, James 1987). Faced with increased public sector competition for self-paying student cohorts, private institutions in turn have sought to explore new market niches and strategies for their survival.

Thus, the new approach found across post-communist countries is notable, meriting close examination. Using empirical evidence from the region, the paper examines the scope and nature of higher education privatization and its impact on private-public dynamics. It focuses on how competition for student cohorts between two sectors in higher education shapes the growth patterns of private and public sectors. The paper also looks into the strategies that private institutions choose in situations when existing niches are increasingly narrowed by public sector privatization.

1. Higher Education Privatization

The term *privatization* in connection with higher education filed is usually used in a broad sense to describe the process that involves the creation and growth of private higher education institutions on the one hand and introducing market-oriented practices into public higher education organization on the other (Jones 1992). The latter often entails in diversification of funding sources by means of introducing tuition fees, selling goods, expertise and services and encouraging individual and corporate philanthropy. Higher education privatization, thus defined, may take several forms. Introduction of tuition fees and thus lessening the dependence on state budget is a pervasive form of privatization. Increased “business behavior” is other form of privatization which may involve practices such as selling expertise and intellectual property as well as deliberately designed educational services to private or public purchasers. Apart from this, business-oriented practices may mean making most efficient use of scarce public funds, in part through adopting practices that emulate those associated with the private sector. Furthermore, privatization often includes individual and corporate philanthropy – the process that might be perceived as an indirect purchase of teaching, research and services. Finally, the most complete and evident form of privatization is the creation of private higher education institutions (ibid.).

Higher education privatization is a growing phenomenon across the world but in many respects, the countries of CEE and the FSU presents an extreme case. That is because of the scale and speed of the processes taking place in the countries with the recent history of nearly absolute

state monopoly in the provision, funding and governance of higher education. The 1990s saw the creation and growth of private higher education institutions in most post-communist countries (Slantcheva/Levy 2007). This process has been notably intensive in Romania, Poland, Estonia and Georgia, so that newly established private sectors soon started to capture around one third of the total student enrollments.¹ Although very sudden, such rigorous private growth is explicable by various factors. The first is the large pent-up demand for higher education that could not be accommodated by “quantitatively” elitist higher education systems characteristic to communist countries. Public sectors’ failure to quickly adjust to the changing labor market needs necessitated by powerful political-economic changes is seen as another contributing factor to easy and rapid private expansion. But, the situation with respect to public institutions started to alter visibly from the mid 1990s, when most institutions introduced tuition fees for those students who could not win the competition for state funded places. This is how parallel departments for fee-paying students were established along those funded entirely by the state.² The wide autonomy that public institutions had acquired during the years immediately following the regime change facilitated their surge to launch business oriented study programs and open new campuses for running them.

The growing body of self-financed students is a striking aspect of privatization within the public sectors in many post-communist countries, where the increase in fee-paying student numbers has been not less dramatic than in private enrollments (Slantcheva/Levy 2007). In Georgia, for example, the number of self-financed students has grown rapidly since 1993/94, when institutions first started to charge tuition fees, so that in 2005/06 almost half of the students enrolled in the public sector paid for their studies. Currently, student payments constitute the bulk of income for most public universities in Georgia. In 2001-2002, for example, the revenues collected from student tuition at *Tbilisi State University* and *Medical University* constituted respectively, two and three times higher than funds received from the state (the State Department of Statistics 2004). Private funding has become the major source of income for public in-

¹ In others, like Albania, Croatia, Lithuania and Slovakia, the growth has been more limited and there are still countries in Central Asia that do not allow privately provided higher education. In general, there are wide differences not only in the scale but also in the nature of private growth across post-communist countries.

² As with other changes taking place during the early years of independence, the introduction of study fees was often initiated at the institutional level and sanctioned later by the respective legal documents.

stitutions in Russia too, where in 1998, extra-governmental funding for public universities ranged from 30 to 60 percent (Johnstone/Bain 2001). The rapid increase in self-paying student numbers is observed in other post-communist countries as well. If in 1995-96, there were 17 percent self-paying students in Estonia, their share has grown to 53 percent by the academic year 2004-05. The ratio of self-paying students has been on the rise even faster in Latvia. Already by the 1997-98 academic year, there were more fee-paying students than sponsored by the state, whereas in 2003-04, as much as 76 percent of all public university students paid for their own studies (Kasa 2003).

Thus, the dependency of public institutions on tuition fees has become almost as great as of their private counterparts. Unlike the latter, public universities do not have a comparable need (at least in theory) to closely follow to the labor market fluctuations, but their extreme tuition dependency makes public and private sectors in the post-communist context more alike (Levy 1992). As expected, the financial factor then relates to other changes, such as institutional responsiveness to student and labor market demands. Georgia offers a good illustration of this point. In order to attract fee-paying students, almost all public institutions extend their course offerings to high demand fields like information technology, law, business administration and often offer them in English and German languages. What is more, training in languages of the country's minorities is usually provided by the public rather than the private sector. The same holds true for theological and religious studies that are widely offered by the public sector. At the same time, religious factor plays marginal role in the private sector growth, despite the ethno-religious heterogeneity of Georgia's population.³ This sort of private-public juxtaposition with the public sector undertaking a kind of internal diversification (ethnic and religious) usually associated with the private sector, yet largely absent from the Georgian private sector is remarkable (Pachuashvili 2007).

Although the Georgian developments that defy certain private and public sector patterns characteristic elsewhere are somewhat extreme for various reasons (ibid.), they run parallel to those observed in much of the region where public sector has become "private" in some key respects. Strikingly, the same characteristically private purpose of accommodating the students demand for low-cost and high-demand subjects has under-

³ An availability of religious studies in the public sector is rather common across the region which can be seen as a reaction against communist atheism and reflects the absence of clear separation between the state and religion.

lined the recent public enrolment growth in many countries in the region. Although the scale and extent of the economic downturn experienced during the political-economic transition has varied across the region, higher education systems in all countries have become increasingly pressured to supplement inadequate governmental funding with private recourses. There are considerable implications of the growing trend of the shifting costs from governments to students and their families for public sector dynamics. The examination of higher education systems in five CEE countries (Lithuania, Estonia, Latvia and Belarus), for example, has revealed that commercially oriented studies dominate the curricula of not only private but also public higher education (Hansen/Vanags 2005). The common pattern observed across the region is that almost all public institutions, whatever their full profile, include market-oriented study programs in social sciences among their course-offerings.

2. Inter-Sectoral Dynamics

As expected such developments have competitive inter-sectoral impacts: shifting dynamics in one sector affects the other sector, spurring the changes in the second sector that in turn affect the first. Empirical observation from the region once again highlights the interconnectedness of the two sectors in higher education. Various factors that were at work in the beginning of the 1990s have enabled incredibly easy proliferation of private institutions in many post-communist countries. These include generally low pre-transition levels in higher education participation, lax regulatory regime characteristic to early years of independence and the inability of public institutions to quickly restructure their curriculum and course-offerings necessitated by the broader political-economic changes.⁴ A lack of flexibility in responding to the changing environment has been characteristic to public institutions in general (Levy 1992). It is therefore not unexpected that public institutions in post-communist countries were slow in gearing their study programs towards such fundamental change as the transition from the planned to the market economy is. Highly selective higher education systems that post-communist states have inherited, with

⁴ These are broad reasons that apply to the region in general. However, many country-specific factors can be identified which have had fueling or impeding impact on private sector growth. These include ethnic-religious and language heterogeneity of a country's population, the mode of interest intermediation, the power and influence of various professional associations and religious groups (Pachuashvili in progress).

its extreme focus on natural sciences and technical fields, left plenty of room for private alternatives. As there was considerable gap to fill, private institutions emerged and multiplied rapidly, especially during the early years of independence. In fact, much of the growth in countries with the largest private sectors such as Poland, Romania, Estonia and Georgia took place during the early 1990s. Later period in these countries was marked by some decrease in the private sector size.⁵ In Estonia, for example, the share of private sector enrollments fell from around 25 percent in 1999-2000 to 20 percent in 2003-04, while the Romanian private sector shrank from 29 to 23 percent during the same time frame (Slantcheva/Levy 2007: 16-17).⁶ In Georgia the private sector size has decreased not only in relative to public sector but also in absolute terms. That is, the private enrollments dropped from 42 900 in 1996-97 to 29 300 in 2003-04 (The State Department of Statistics of Georgia 2004).

The forces shaping private sector dynamics are multiple and range from governmental regulatory policies to those at broader political-economic and demographic level. The post-communist evidence once again bears out the significance of the processes taking place within public sector for private sector dynamics. The recent decline in private higher education in countries that have experienced a strong initial expansion reflects the fact that after a period of disenchantment with their performance, public institutions have been gaining their competitive edge (Levy forthcoming). Obviously, there are other political, ideological, regulatory and demographic factors at work that contribute to the private decline, but the impact of public sector competition on private dynamics is undeniably clear in many countries in the region. In depth examination of Georgia's private sector developments, for example, provides ample evidence to the fact that the sharp decrease in the private enrollments was mainly a result of institutions' inability to survive the competition created by rigorous public sector privatization (Pachuashvili 2007). This is because, both rapid increase and ensuing fall in the share of private enrollments took place against the backdrop of a fairly unchanged regulatory regime and broad political-economic picture characteristic in the first decade of Georgia's

⁵ It must be added here that there are other development patterns observed across the region. For example, Latvian private higher education system has been growing more gradually but currently, with its almost one-third of total student enrolment, it is one of the largest in the region. Notably, it is larger than Estonia, Romania and Georgia, the countries experiencing most vigorous initial growth.

⁶ It is important to note that while the market share of private enrolments has decreased in Estonia, the total enrolments have been on the rise.

political-economic transformation.⁷ This is not to say that in Georgia or in other post-communist countries, successful implementation of wide-ranging reforms provide public institutions with competitive advantage. The pace of changes was mostly slow, restructuring efforts sometimes limited to introducing commercially oriented study programs for students willing to pay the tuition. But as public universities continue to enjoy higher status and legitimacy in societies at large, these well-established institutions seem to provide students with still better assurance.

The fact that private and public sectors compete for the same segment of self-paying students seeking training in practically oriented fields make the competition between two sectors in higher education especially strong in the post-communist setting. Significant decrease in pent-up demand on higher education coupled with downward demographic trend noticeable in much of the region since the early 1990s constitute additional factors that push private institutions towards exploring new strategies for their survival. Private institutions in Belarus, for example, have chosen to offer their studies at the cost that is significantly lower than public sector tuition and thus concentrate on qualitatively different student body (Hansen/Vanags 2005). Another notable strategy that private institutions use for overcoming the challenge posed by large-scale public sector privatization is to merge with prestigious public universities. The process of merging private institutions with well-established public university got underway recently in Estonia. *The Estonian Institute of Humanities*, the first private university in Estonia, has become a part of *the University of Tallinn*. In an attempt to remain competitive not only on the Estonian but on the European higher educational landscape as well, the private *Institute of Law in Tallinn* has merged with *the University of Tartu*. The evidence suggests that private institutions have become increasingly pressured to enroll students from beyond Estonia. *The Estonian Business School* – one of the country's leading private universities – has even sought to attract students from China and other East Asian countries (ibid.).

⁷ Governmental change through so called “Rose Revolution” in 2003 marked a fundamental shift in the regulatory regime towards both sectors in higher education, as well as in other spheres of economic and public life. However, before the changes of 2003, the private sector enrollments had already dropped by some 13 000 or 15 percent market share since reaching its pick in 1995/96 (State Department for Statistics 2004). The impact of a downward demographic trend – another important factor for higher education enrollment dynamics – is negligible in this case as the fall in the rate of population increase is noticeable only since 1989. The expected consequences of this decline on higher education enrolment rates should be taken into account only from 2006/07 when the part of the population born after 1989 reached university age.

Thus, broader privatization within public institutions has challenged private higher education, contributing to diminishing its share of total enrollments. But the implications of large-scale public sector privatization for private institutions are not limited to the share of enrollments only. A look into the missions that Georgian private institutions serve reveals that motives for global private higher education growth, such as religious and ethnic, play marginal roles in private higher education dynamics, whereas the public sector serves to cater to the needs of religious and ethnic minorities. The Romanian case too provides an illustration to the fact that availability of theological and religious studies at public sectors to some extent alleviates the need of its private provision. Despite the fact that almost 80 percent of Romanian population is Orthodox Christian, private institutions operating by 2001 included no Orthodox Christian private higher education establishment. Out of twelve private institutions serving religious mission, three were Roman-catholic, three – Greek-catholic, two – Protestant and four – Neo-protestant (Reisz 2001).

3. Concluding Remarks

The processes taking place within higher education systems of post-communist countries follow the pattern observed internationally, but the speed and intensity of these developments help to clearly identify the close inter-relationship that exists between two sectors in higher education. Many factors at broad political-economic level characteristic to the yearly years of the regime change contributed to public sector failure to respond to the changing needs of the labor market and society at large. The same conditions, on the other hand, provided fertile grounds for creation and growth of private higher education institutions. Public-sector reform, however, later took its toll on private enrollments in many countries in the region. But the inter-sectoral influences are not limited to figures only. As private contributions play crucial role in survival of resource-starved public universities, the latter increasingly assume roles usually associated with private sector. This, in turn influences the choice of roles and missions that are left for private institutions to pursue. This brief examination has shown how vibrant inter-sectoral competition becomes as private institutions challenge public institutions and then reformed and privatized public institutions challenge their private counterparts.

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