

The Politics of Higher Education: Governmental Policy Choices and Private Higher Education in Post-communist Countries

A Comparative Study of Latvia, Lithuania, Hungary and Georgia

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Abstract

The main focus of the research project is to understand the emergence and growth of private higher education institutions in countries of Central Eastern Europe (CEE) and the Former Soviet Union (FSU). Significant transformation of the higher education field related to the diminished state involvement in funding, provision and governance of higher education has been taking place since the collapse of the communist regime. The creation and growth of private higher education institutions is one such development greatly contributing to the changing higher education landscape. However, both the private growth patterns and policies through which governments accommodate newly emerged institutions have varied across the region. The aim of the research project is two-fold. The first is to identify salient tendencies in governmental policies towards higher education and examine their impact on the size and nature of privately provided education. To understand what leads to such variety in governmental policy outputs constitutes another central objective of the study. In other words, the focus of the research project lies in recognizing what determines differences in governmental approach towards private higher education and how these differences, in turn, shape private growth patterns. The current paper presents the design of the research project.

RESEARCH DESIGN

1. Introduction and the Main Objectives of the Research Project

The main focus of the research project is to understand the emergence and growth of private higher education institutions in countries of Central Eastern Europe (CEE) and the Former Soviet Union (FSU). Significant transformation of the higher education field related to the diminished state involvement in funding, provision and governance of higher education has been taking place since the collapse of the communist regime. The creation and growth of private higher education institutions is one such development greatly contributing to the changing higher education landscape. The beginning of the 1990s witnessed rapid growth of private higher education institutions in most newly independent countries. The increase in private providers - one aspect of the higher education massification process - is a global phenomenon. But rarely has this process been as concentrated in time and as encompassing of so many countries with comparable legacies, as it has been in this region (Slantcheva and Levy 2007, p.1). On the whole, access to higher education during communism had been limited. In fact, only in a few countries did the enrolment rate exceed the accepted borderline of 15 percent of the youth age cohort between elite and mass higher education. Therefore, rapid increase in private enrolments to meet unleashed student demand is hardly surprising. However, the private growth patterns have been largely uneven across the region, varying from non-existent to more than 30 percent share of the total enrolments. Apart from the size, differences are perceptible in the nature and types of privately provided education. While private sector growth in some countries has mostly been in so-called demand-absorbing institutions, in others it has served ethnic, religious, elite and other distinctive mission.

The reasons responsible for producing such cross-national variation in private sector growth patterns are multiple and range from broad level factors such as demographic, ethnic, religious, economic and political, to those at higher education system level like public sector capacity and quality, legislative and regulative framework and other institutional arrangements. Most important determinant among them, however, is the public policy towards higher education. This has to do with the special nature of higher education and various market failures associated with its provision. In difference from competitive markets that by and large respond to the supply and demand conditions, the institutional arrangements set by a national government serve as the principle factors in shaping the dynamics of both public and private sectors in higher education. Hence, playing a central role in their structuring, regulating and financing, government is a dominant actor influencing public higher education institutions. Owing to the fact that it provides legislative framework and molds the environment in which institutions operate, the state also is a powerful factor in private institution development (Geiger 1988, Levy 1999, Zumeta 1992, 1996, 1997). Besides general legislative and regulative framework, information and financial policies, which include taxes and subsidies, student aid (loans and grants) and direct appropriations to institutions, constitute key determinants of private sector growth patterns. What approach does government take towards building public sector capacity and setting public institution tuition level, or what decision does it

take for including the private sector in policymaking processes has important implications for private sector dynamics, although indirectly. Despite visible tendencies and perceptible similarities, the countries of Central Eastern Europe and the Former Soviet Union offer the richest possible picture with regard to these aspects in governmental approaches vis-à-vis private higher education.

The aim of the research project is two-fold. The first is to identify salient tendencies in governmental policies towards higher education and examine their impact on the size and the nature of privately provided higher education. To understand what leads to such variety in governmental policy outputs constitutes another central objective of the study. In other words, the focus of the research project lies in recognizing what determines differences in governmental approach towards private higher education and how these differences, in turn, shape private growth patterns. It therefore asks:

What are causal linkages between various governmental policy postures and private higher education development patterns? What are the strategic responses of private institutions to different governmental policy outputs? Which are the most important policies through which governments influence the size and nature of privately provided education?

Another set of questions concerned with possible determinants of public policy asks:

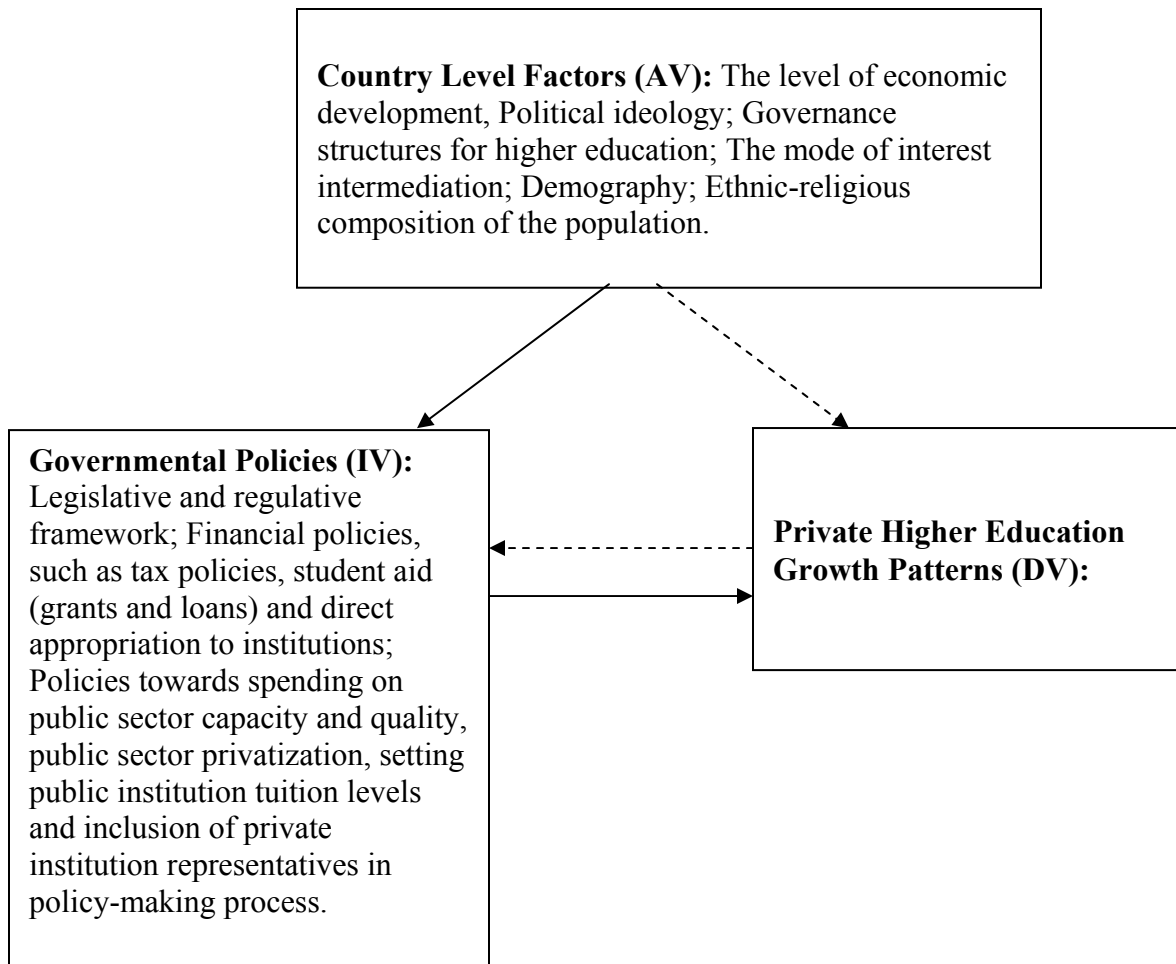
What explanation could be found for conspicuous differences in higher education policy outcomes? Why do we find some post-communist governments encouraging while others seeking to contain private sectors development through various policy instruments? What drives those manifestly different approaches in governmental stance vis-à-vis private higher education?

Given that post-communist countries share much of the legacy at both higher education and general political-economic level, the region offers a rare possibility to study what causes observed cross-national variation in higher education policy choices on the one hand and their implications for private sector development on the other. That is, controlling numerous background variables on which countries under consideration broadly match enables testing hypothesis suggested by different bodies of literature and generating the new ones. The region therefore provides fertile grounds to explore general questions of public policy determinants; namely *why do different governments pursue particular courses of action to deal with similar concerns? Which are the factors having most weight in determining public policy outcomes?*

2. Theoretical Framework

3. Variables and their Operationalization:

The model below incorporates variables that emerge from the analysis of different bodies of literature dealing with private forms of higher education as well as those suggested by the preliminary empirical examination.



According to the model showing the direction of the analysis, governmental policies that are influenced by the multiplicity of factors at political-economic level serve as the major determinant of private higher education growth patterns. Dashed arrows indicate other possible directions of a causal relationship. That is, in case of a complete laissez-faire governmental attitude, the private growth patterns will respond to the broad level factors and basic supply and demand conditions, like with competitive markets. The second dashed arrow signifies that the size and the strength of the private sector will in turn bring to bear on the formation of governmental policies towards private education. Besides, by exerting supply-side influence on policy-making process, ethnic, religious and other ideological groupings will serve as a driving force behind private higher education expansion. The U.S. experience indeed indicates that both the market share of the private sector and lobbying power of different ideological groupings on the supply side constitute important determinants of governmental stance towards private higher education (James 1987; Zumeta 1992, 1996, 1997). Although the relative weight of this viable is expected to be less in the region to compare to the countries with well-established private higher education systems, the study will explore *to what extent do favorable policies influence the size and capacity of the private sector and to what extent are favorably disposed policies the product of its size and influence?*

3.1. Dependent Variable: Private Higher Education Growth Patterns

Before going on to describe how can the dependent variable be measured and operationalized, we should first define what “private” denotes in the post-communist context. Levy (1986a, 1986b, 1987, 1992) has emphasized multiple problems that arise when trying to accurately define private higher education institutions. For one thing the legal term “private” encompasses institutions of rather different structure, which are linked with the state in various ways. This blurring poses difficulties not only for defining what makes an institution “private” as opposed to “public” but also for identifying empirical differences between two forms of organization.¹ A common approach taken when comparing private and public institutions is to analyze intersectoral differences along the dimensions of *funding, ownership, governance* and *mission*. It must be noted, however, that none of these criteria alone or set of criteria will prove to be explicit enough for appreciating the differences between two types of organization.

¹ Historically, there was no clear-cut distinction between the public and the private in higher education, like with other spheres of societal activity. In fact, until the separation became pronounced in U.S in the nineteenth century, higher education institutions combined private and public elements naturally. Whereas in the U.S. the church-state blend gave way to private and public forms simultaneously, in much of the world it yielded to a public form of higher education (Levy 1992). However, even today, both developed and developing nations exhibit mixed systems of public and private elements in their provision of higher education.

The most convenient and relatively unambiguous dimension commonly employed as a basis of classification is a legal form of *ownership*. However, too often the ownership status says little on the nature and behavior of organizations legally labeled as “private” and “public”.² In many cases, it is difficult to distinguish between private non-profit and for-profit institutions, and identify the differences in ownership related behavior predicted by the theory.³ This proves true when examining ownership status and organizational behavior of private institutions in post-communist countries. Empirical evidence from the region indicates that more often than not private institutions are established as non-profit organizations.⁴ However, being small, vocationally oriented specialist institutions, they are closer to for-profit educational organizations widespread in developing countries than to the U.S. type non-profit institutions. As will be explained below, heavy dependency on tuition fees accounts for why organizational features of private institutions, even when legally non-profit, fit into those characteristic to for-profit educational organizations. Post-communist private institutions are rarely eligible for governmental subsidies, tax exemptions or other financial benefits associated with non-profit legal status.⁵ That individuals pay their own way directly to institutions that serve them explains the distinctive mission that the latter pursue, often involving focus on practical, vocationally oriented fields. Whatever the ownership status, the important point is that the distinction between private non-profit and for-profit forms of organization is almost inconsequential in the post-communist setting.

Organizational *mission* is a further important criterion for private-public comparison and the one on which private sector classifications offered by different scholars have been based (Levy 1986b, 1989, Geiger 1986, 1988). The literature has identified three major types of private institutional goals responding respectively to demand for *better* (elite types), *different* (ethnic and religious, mostly Catholic Christian) and *more* (demand-absorbing) education.⁶ Respectively, three principal types of private institutions, that is religious-cultural, elite/semi-elite and demand-absorbing/non-elite, has been identified (Levy in progress).

² A good illustration of this point is offered by the post-communist evidence in which institutions that continue to be publicly owned increasingly engage in practices that have been a hallmark of privately owned educational organizations.

³ The main distinguishing characteristic of non-profit organizations from for-profit commercial enterprises that holds in case of different countries with different tax laws is that the former are subject to a ‘non-distribution constraint’ that prohibits the distribution of residual revenue to owners of institutions (Hansmann 1987, p. 28).

⁴ Georgia and Ukraine, where institutions can be registered as limited liability companies, are among few post-communist countries that allow for-profit educational organization alongside those having non-profit legal status.

⁵ Hungary where religious private institutions are tax-exempt and receive most of their funding from the government constitutes nearly only exception not only in our sample but also in the entire region.

⁶ Although private institutions are freer to choose mission to pursue than their public counterparts, the roles they fulfill is still very much constrained by the room given by the state.

Mass private sectors are common in the countries with highly selective and academically elite public sectors, where the governmental production cannot satisfy increasing social demand on higher education (Levy 1986b, 1989; Geiger 1986, 1988). Private institutions that grow in response to excess demand tend to be highly specialized institutions that concentrate on low-cost, high-demand subjects and that often lack prestige and influence. It must be noted however that demand-absorbing is the largest private type with intra-type variation that is far greater than within any other private sector category. With a notable exception of Japan, this pattern is characteristic to developing countries where governmental supply at higher education level is limited due to insufficient resources. By contrast, in countries where the state is a dominant provider of higher education, niches are left for private institutions to serve those minorities who demand higher education types that are different from what the state can offer. These universities are created with the distinctive goal of promoting some strong religious, cultural or ethnic identities. The religious motive has been main moving force behind the early growth of private sectors in the U.S and Latin America, as well as in such developed countries as Belgium and the Netherlands. Finally, private institutions sometimes emerge in response to a perceived public sector failure. For example, elite secular universities in Latin American countries grew to cater to the needs of privileged classes seeking elite alternative during the times when public sector lost its previously elite character. Sometimes elite private institutions are created because getting into best public universities is highly competitive. Providing students with high quality alternative, such selective private institutions oriented on academic goals exist in Japan and France.

That said, it must be added that truly elite private higher education is somewhat uncommon outside the U.S.⁷ More widespread and growing type is semi-elite private higher education, the one which lies in between elite and non-elite categories. At the present, the usual niche for semi-elite type institutions that also applies to our region is business studies. The defining features of semi-elite category include entrepreneurial and market-oriented focus, with considerable emphasis on order and efficiency, and pro-Western, pro-globalization norms. Competing with second tier public universities, these institutions often aspire transforming from niche leadership to broader excellence (Levy in progress).

Thus, demand-absorbing, distinct and (semi)elite organizational goals account for the private sector expansion in different nations. In some countries diverse motives have driven the private development during different periods of time. In Latin America, for instance, the growth was experienced in clearly discernable three sequential waves, the first serving Catholic Christian, the next - secular elite and the third - excess-demand absorbing mission. As Levy (2002) has recognized, the distinguishing characteristic of the post-communist private development is the simultaneity of all three motives behind the private growth. While the balance varies, three “ideal” types of institutions serving different purposes can be identified in most countries.

⁷ If this can be taken as an indication the two 2007 rankings of the world’s 100 leading universities include no non-US private institution, whereas in the next 100 there are only seven such institutions (Levy in progress).

A further fundamental point for comparing private and public educational organizations is *finance*. The major private-public difference is that private institutions are privately funded while public institutions are publicly funded. Even if finance is a fairly unambiguous criterion, the most common private-public cooperation exists in this area. This is to say that the majority of higher education systems display some combination of public-private funding (Altbach 1999).⁸ Defining private institutions in the post-communist context perhaps poses fewer difficulties seeing that newly emerged institutions exhibit almost complete distinctiveness on this one of the most important criteria. Private institutions are almost exclusively financed by private contributions and only in rare cases do they have other than private funds available to them. Exceptions include a small number of semi-elite institutions obtaining financial support from international co-founders and religious universities that sometimes receive funding from respective religious groups. In fact, tuition dependency constitutes the main comparative characteristics of post-communist private institutions.⁹ Tuition dependency, and by extension the criterion of finance, has most significant implications for organizational behavior. The fact that their survival depends on the number of enrolled students makes private institutions sensitive to student interests, the employment market for their graduates and the patterns of pricing. Besides, it requires institutions that they allocate their scarce resources in the most efficient way. All these factors compel private institutions to be small and thus flexible enough to adapt quickly to the changing environment (Altbach 1999).¹⁰

The extreme reliance of post-communist private institutions on private resources is hardly surprising seeing that governmental funding available to public universities too was slashed drastically during the years immediately following the regime change. Public financial support has been increasing as economies started to recover from the initial sharp downturn. Some countries even show the move towards extending governmental finance to private institutions, though mostly to students attending them, rather than to institutions directly, and in the form of loans, rather than grants.¹¹

⁸ Countries that provide governmental funding directly to private universities include Japan, India and Philippines. Another model of mixing of public and private funds is characteristic to the United States where tuition fees for private universities are often backed by student grants and loans. Furthermore, the U.S. private non-profit educational institutions usually receive governmental financial support in the form of tax-deductions and subsidies, while research-oriented private universities obtain financial assistance for the research from various public agencies. Public universities, on the other hand, often receive private funds in the form of corporate, foundation or individual donations for the research and other purposes. It should be emphasized, however, that the U.S. is nearly the only exception in having public sector that draws considerably on private funds (Levy 1986, 1987; Altbach 1999).

⁹ While finance is one of the most useful measures for distinguishing post-communist private higher education institutions, this dimension, like the ownership status, carries less weight for defining public institutions. This is because public institutions in all countries show an increasing tendency of supplementing state funding with private tuition.

¹⁰ Public universities, in contrast, have no comparable need to be responsive to the changing needs of the labor market (Altbach 1999).

¹¹ Estonia, Latvia, Lithuania, Hungary, and the Czech Republic are among a few CEE countries that started to introduce student loans from the 2000s. Usually, commercial bank loans that are guaranteed by the

Lastly, *governance* is the other critical measure for public/private classification. As the general rule, private institutions enjoy more autonomy from governments than their public counterparts. An obvious rationale behind the governmental control for public universities is the perceived need for overseeing performance with the state funds. Empirical reality, however, is rich with examples when public institutions achieve substantial autonomy even when heavily reliant on public resources, whereas tuition-dependent private institutions become subject of strict governmental regulation (Levy 1986a, 1987). Strong support to the latter point is provided by some post-communist countries, where private institutions operate in highly regulated environment, even if they do not receive any public financial assistance. Countries that regulate private sectors extensively include Belarus, Lithuania and Kazakhstan. These examples stand in stark contrast to countries like Georgia and Romania where private institutions evolved in complete freedom from governmental control. In fact, the most significant cross-national variation rests on the measure of governance.

As the above analysis shows none of the dimensions is fully consistent for distinguishing between two types of educational organizations in practice.¹² One way out of the complexity related to private-public differentiation suggested by Levy is to accept the legal nomenclature and then investigate the empirical realities along the four criteria recognized to be crucial as for public-private as well as for country-to-country comparison (Levy 1986, 1987).¹³ This study employs the definition according to which **private** higher educational establishments are those *privately owned* institutions that meet the legal-structural criteria for private higher education institutions of a country in which they operate. Accepting this definition, private growth patterns will be analyzed along the dimensions of funding, *ownership*, *governance* and *mission*. Moreover, the size of the sector will be measured in the share of all student enrollments. It is less accurate to measure the sector's size in the number of institutions as private educational organizations tend to be much smaller in size than their public counterparts.

government are granted to full-time students studying at accredited private and public universities. In other countries, like Bulgaria and Russia, students can borrow from commercial banks with the standard interest rate and without government being a guarantor or subsidizer. Both countries are planning to implement low interest, governmentally backed student loan schemes in the near future. Governmental grants, on the other hand, apply only to those enrolled in public universities. Georgia is the only country where, since the academic year 2005/06, students winning the competition for state grants (vouchers) can choose to study in private universities.

¹² Despite this, more often than not private-public differences in the post-communist setting have been marked. Mostly financed from private contributions, privately owned institutions are quite private in their governance and their ties with the labor market. However, on the other side, public institutions, though still vastly different from private, are less public than they used to be. Accordingly, private-public distinctiveness is sharp, but qualified in the region.

¹³ Organizational sociologists offer different approach for resolving definitional problems. Based on the notion of scope, this approach associates private higher educational organizations to "specialist" institutions with a limited scope while public organizations - to "generalist" institutions characterized by a greater scope. The latter tend to exhibit significant breadth, openness, looseness and ambiguity as opposed to selectivity, narrowness, focus, and coherence of the former (Levy 1987, 1992).

3.2. Independent Variable: Governmental Policies towards Private Higher Education

As the chapter covering the pertinent literature shows, there are multiple mechanisms through which governments influence private higher education in some direct or indirect manner (Zumeta 1992, 1996, 1997, 2000). Below it the list of governmental policies which are thought to affect private growth patterns in most significant ways and along which governmental stance vis-à-vis private higher education will be analyzed in this research.

1. *Legislative Framework* is the most fundamental policy that either permits or proscribes the existence of privately provided education.
2. *Regulative Framework* includes licensing, quality control and associated regulations. The extent of state mandate and regulation will encourage or restrict private sector growth and distinctiveness.
3. *Student Aid Policies* includes portable student aid grants and student loans and can be designed in the way that facilitates or discourages student choice of private institutions.
4. *Direct State Funding to Private Institutions* includes financial support to private institutions (other than student aid) such as contracting with and direct appropriations to private institutions. This policy can be viewed as the purchase of study slots at private institutions by the state according to student's choice of a university.
5. *Tax Policies* – facilitates private institution development by means of tax exemption, deduction and credit policies. They also include tax exemptions on tuition fees for students and their families who pay them.
6. *Governmental Policies toward Public Institution Tuition Levels* is a potent policy that can be used for creating competitive environment in which institutions operate. Whether governments ignore or regulate it strategically, the policy of pricing public higher education services has profound implications for private institutions.
7. *Governmental Policies toward Public Institution Expansion* relates to governmental approach towards expanding access to higher education. Governmental policies can be designed so that it supports enrolment growth at public sectors, encourages public sector privatization or assists private sector in accommodating rising demand on higher education (depending on whether the latter is viewed as an important means for achieving public purposes).
8. *The Extent of Private Sector Involvement in Higher Education Planning Process* – governmental choice whether or not to include private higher sector representative in this process has significant implications for the sector.

Examining the above policies in the U.S context, Zumeta found that even though policies range greatly from state to state and often are not purposely designed for private institutions, there is an obvious correlation among them (Zumeta 1997). That is, states with high level of tuition fees in public institutions – a policy that undoubtedly benefits private institutions - turn out to be the ones that also spend a great deal on student aid and have other programs through which governmental finance is channeled to private institutions. For that reason, it is possible to group different mechanisms, with which states influence private growth patterns, into policy postures. *Laissez-faire*, *market-competitive* and *central-planning* are three main policy postures identified by Zumeta.

In the *laissez-faire* policy posture, a state has little regard for private institutions as valued means of achieving its policy aims in higher education and hence ignores the sector altogether. This means little or no funds channeled to institutions either directly or through students and no tax incentives available to them. The governmental effort in collecting and disseminating information about private institutions is usually negligible. Even with respect to regulation, the governmental activity is minimal, by and large limited to the basic licensing of institutions in order to be established and operate. Besides, denied access to policy-formation process, private institutions have no role to play in the higher education planning.

In the *central-planning* policy regime, by contrast, the state treats private sector as an integral part of its higher education system and employs private sector to play carefully planned roles to serve public purposes. In other words, such a regime stands as the complete opposite of the *laissez-faire* policy stance. Typically, the state practicing an extensive central planning plays a decisive role in planning and management of higher education system, integral part of which are private institutions. To avoid unnecessary duplication of institutional missions and to insure private institutions serve public purposes, the state becomes involved even in designing program configurations and assigning specific institutional roles to private universities. This is mostly achieved through using financial incentives, both in the form of direct appropriations to institutions and aid to their students, which in turn increases the need for supervising performance with state funds.

In the *market-competitive* policy posture, the state takes entirely different approach towards private higher education from the above two models. It plays much more active role in private higher education development than is the case with the *laissez-faire* regime, yet shunning from the detailed state direction characteristic to the central-planning model. The state in market-competitive policy posture takes comprehensive view of private institutions and uses the sector for achieving its higher education policy goals, but by means of employing market mechanisms and signals like portable student aid grants, lower subsidies built into public institution tuitions and information policies. Under this model, the governmental regulation is limited to quality control to a certain extent and addressing other market imperfections characteristic to higher education sector, such as insufficient consumer information or inadequate response to particular state needs by higher education system. By using enrollment-driven funding, performance contracting arrangements and other market mechanisms, government will

further try to encourage intersectoral competition for student aid cohorts and funds following them. Thus, if the state practicing central-planning policy posture treats private institutions similar to their public counterparts, the state under this regime purposely creates competitive environment in which both private and public institutions operate.

Salient tendencies in governmental approach towards private higher education across post-communist countries can conveniently be analyzed using conceptual framework advanced by Zumeta, though with some caveats and modifications. Namely, those postures were developed for non-profit forms of organization in the US context with lengthy history and well-established student and institutional aid practices. It was already emphasized that organizational features of post-communist private institutions are considerably different from a non-profit form of educational organizations. Furthermore, post-communist private institutions have had a history of less than two decades and therefore public policies still remain in flux and ad hoc, often not related to each other in a coherent way. Therefore, it is not always possible to fit post-communist patterns into identified policy postures neatly. Though, as the preliminary empirical investigation suggests, all three ideal-type policy stances can be found across the region. The major difference between the two settings, however, is that while financial incentives have usually been employed for achieving control over institutions in the U.S. context, the extensive use of direct control mechanisms has been characteristic to our region. If we conceptualize governmental policy framework in terms of a two-by-two matrix governmental policy patterns of the post-communist countries that lean towards central-planning policy posture would fall into the third cell, whereas the U.S. type central-planning model into the forth.

Figure 1. Governmental Policy Postures

		USE OF DIRECT STATE CONTROL	
		<u>Low</u>	<u>High</u>
USE OF DIRECT INCENTIVES	<u>Low</u>	Laissez-Faire	Bureaucratic/ Regulatory Planning
	<u>High</u>	Market-Competitive	Comprehensive (Pro- Active) Central Planning

Source: James Hearn in Zumeta (1997)

Lastly, data sources that will be employed for this part of investigation includes policy papers and legal documents such as national laws on higher education, regulations regarding licensing and accreditation of both types of institutions. Special attention will be devoted to scrutinizing mechanisms that guide the allocation of governmental funding to institutions, student financial aid and loan schemes.

3.3. Antecedent Variable: Governmental Policy Determinants

This section attempts to establish what characterizes countries with larger vs. smaller shares of enrollment in the private sector and with the particular types of governmental policies influencing the sector.

The level of economic development: is a factor that is expected to influence governmental policy direction towards private higher education in a significant way. Internationally, data on how much of a nation's total productive capacity do different countries allocate to higher education or its corollary of how large a percentage of age cohort do they seek should pursue some level of higher education is most varied. Empirical evidence from developing countries suggests that governmental interest in higher education privatization commonly results from its incapability to meet high and rising cost of higher education and often accompanies economic recession or downturn, as has been the case in Britain and Australia (Jones 1992). Across our region, one of the most conspicuous differences observed is on the level of governmental spending on public services in general and on higher education capacity in particular. The relative weight of this variable on governmental policy disposition towards private higher education will be tested using macroeconomic indicators of GDP as well as overall and per-capita spending on higher education.

Political ideology is another potentially important country-level variable. The choice regarding the role of the state in higher education provision made by each nation is obviously constrained by the economic reality, but it also reflect national ideology and aspirations for social, political and economic advancement. This helps to explain considerable differences in the scope of governmental activity even among countries of a comparable wealth. Seeing that political party elites are often the key initiators of policy choices, probing into dominant ideology will provide further insight into the governmental aspiration for facilitating or restricting privately provided educational services.

Governance structure for higher education at the country level is predictably one of the most important variables that can be viewed as a policy lever through which governments influence the behavior and direction of higher education system. For analyzing higher education governance structures in our region, hybrid steering approach to higher education governance developed by Gornitzka and Maassen (2000) for the European context will be employed. Lately, many analysts have grown skeptical whether the two basic models of higher education governance - *state control* and *state supervising* models - are subtle enough to capture recent changes in the relationship between governments and higher education (Neave, 1998; Gornitzka, Maassen 2000) As they argue, *the sovereign, rationality-bounded, the institutional, the corporate-pluralist* and *the supermarket* steering models better facilitate different approaches that governments employ for higher education governance.

In *the sovereign, rationality-bounded* steering model higher education institutions are treated as the means of achieving political, economic and social goals of the

interventionist state. In this model of centralized, ‘top down’ decision-making, tight control over institutions is employed to insure that they serve public purposes. In *the institutional* steering model higher education institutions have special responsibility to protect academic values and traditions against the background of changing political regimes. This model is best represented by the relationship between the state and the traditional elite universities. In *the corporate-pluralist* steering model, there are several competing sources of authority and control with respect to higher education, which have their role legitimized a priori (sometimes even institutionalized, like with various religious denominations). A ministry of education is just one such actor having the say over the direction of higher education. The roles and functions that higher education institutions fulfill thus reflect the intricate balance among multiple stakeholders and interest groups. Finally, the role of the state in *the supermarket* steering model is minimal limited to that of bookkeeping and addressing various market imperfections. Like with corporate-pluralist steering model, the role of higher education institutions reflects the constellation of interest of various stakeholders, but whereas in the former stakeholders have their stake because their roles are legitimized and institutionalized a priori, stakeholders in the supermarket model ‘earn’ their position with their effort and resources they possess (Gornitzka, Maassen 2000).¹⁴

The mode of interest intermediation (lobbying efforts by academic professionals of public and private institutions) is another factor that is expected to affect governmental stance towards private higher education. This variable refers to a relative political influence of public and private sectors. What is the mode of interest intermediation (i.e. corporatists, pluralist, or clientelist), which groups have a privileged access to higher education policy formation and how these arrangements shape public policy towards higher education will be explored in each country context. Other data gathering strategies such as in-depth interviews, archival record analysis and observation when possible will be employed in order to detect outside influence on policy-making process and under the cover of symbolic legislation.

Demography and ethnic-religious composition of population: In an attempt to develop a complete picture of what characterizes countries with larger vs. smaller shares of enrollment in the private sector and with particular governmental disposition towards the sector, the impact of this variable will be tested. Private higher education growth dynamics in each country case thus will be examined in the light of changing demographics and ethnic-religious composition of the population.

¹⁴ Although higher education restructuring attempts, with its overstated emphasis on institutional and academic autonomy, initiated during the immediate aftermath of the collapse of communism were comparable across the region, the policies became highly differentiated shortly after. The decline of the strict central control over higher education has yielded to markedly different forms of governmental steering, reflecting the special balance between multiple internal and external forces, the authority that the state has nevertheless retained, and the influence of the growing number of stakeholders.

3. Hypothesis

The following hypotheses guide the explanatory analysis:

HYP 1: A possible consequence of a government's laissez-faire stance towards private higher education is the private sector that is weak both academically and politically. Against the background of a lax governmental approach, private institutions will grow rapidly at first but the growth is likely to be in small, vocationally oriented institutions with practical and application-oriented mission. In the absence of quality control mechanisms and other barriers to entry, market forces will serve as the dominant factor in shaping private sector growth patterns. Therefore, if there is expanding higher education market, private higher education providers will grow fast to meet increasing student demand on higher education. However, most private institutions will focus on low-cost vocational study programs offered at low tuition levels and only very few of them will choose a high-quality, high-price strategy. Moreover, without governmental financial assistance in some form, private institutions will struggle to survive in the competitive environment. Having no funding available to institutions, other than those generated from tuition fees, means that financial recourses are increasingly redirected from instruction, which is likely to result in erosion of quality, move towards even more narrow curricula and ultimately, loss of capacity to enroll students. In other words, a probable outcome of the laissez-faire policy model is private sector's failure to provide expanded access and deliver the desired diversity.

HYP 2: A likely outcome of a government practicing central-planning approach is a private sector that lacks distinctiveness and is relatively restricted in size. Extending governmental regulatory effort to the private sector may have benefits to the extent that they result in enhancing quality of educational services, teacher preparedness and the like. Governmental financial assistance available to private institutions will serve as a further contributing factor for their success in serving public purposes. On the other hand, however, under the centrally focused policy regime private institutions become subject to various formal and informal external controls which inhibit their institutional adaptability, flexibility and market responsiveness and restrict their ability to sustain the diversity of mission and approach. Private institutions in an extensively regulated environment are likely to lose their distinctiveness and become quasi-public.

HYP 3: A possible outcome of a government taking market-competitive policy approach in higher education is private sector that is balanced from geographical and disciplinary point of view and is responsive to the labor market needs. As proponents of this model claim, institutions in the market-competitive regime are most cost-effective and innovative, capable of exploring new market opportunities and occupying market niches because of its high administrative flexibility and financial incentive. Governmental policies that avoid detailed regulation yet insure some quality of educational services, collect and disseminate comparative information about institutional characteristics and performance insure consumer protection against various market-imperfections which characterize higher education marketplace. That institutions compete directly to student

cohorts and the resources tied to them and market signals rather than any other factor guide the allocation of resources is expected to further improve the quality of higher education offered.

The next set of hypotheses establishes causal links between various factors at the country-level and governmental approaches towards private higher education.

HYP 4: Countries leaning towards central-planning direction in their policies vis-à-vis private higher education are expected to have some traditions that permit and encourage central planning. The country level governance structure for higher education is expected to fit *the corporate-pluralist steering model*. The political influence of public institutional elite is probably significant under this cartel-like central planning regime. Furthermore, both the level of economic development and higher education funding per-capita are expected to be relatively high, while public sector capacity – significant, so that it can accommodate most of the demand on higher education. Other likely factor is the left disposition of the party in office.

HYP 5: The market-competitive policy posture is expected to be found in countries with strong market-liberal political ideology. The governance structure for higher education is likely to fit *the supermarket steering model*. In this setting, one would expect private sector also having some political influence. The correlation between the market-competitive policy orientation and macroeconomic variables is not entirely predictable but this model is less likely to be politically viable in countries with the lowest level of economic development because of expected resistance that student aid policies benefiting private sector may face. On the other hand, wealthiest countries are also less likely to have such a model in place as concerns with cost-effectiveness in higher education may not be as pressing.

HYP 6: It likely to find the laissez-faire policy posture in less wealthy countries with low level of general spending on higher education sector, with high demand on higher education that cannot be accommodated by governmental production, but where any proposed aid to private universities might look unreasonable and unnecessary. Privatization of public educational services is expected to be equally intensive here. Finally, country-level governance structure for higher education is expected to fit the *supermarket steering model*.

HYP 7: More ethnically and religiously heterogeneous a country is, more intensive will be demand on private education. Ethnic/religious heterogeneity of population is expected to serve both as supply and demand side variables.

4. Methodology and Countries

The reasons for deciding on the comparative case study rather than other methods are several. The first relates to the difficulties regarding quantifying many variables at both dependent and explanatory sides of the model (e.g. the types of private higher education, political ideology; governance structures for higher education, academic professionals' lobbying efforts and the like). Even when measurements are possible, accurate data on private higher education cannot be obtained as governments do not typically collect and keep record of private institutions. Besides, private higher education growth patterns and their determinant governmental policy directions are better analyzed by a close inspection of interrelated factors in particular contexts, rather than by the analysis of general correlation among aggregated variables. The case study research strategy will yield to best deal with the questions posed here because it permits combination of qualitative and quantitative analysis and for that reason greater appreciation of the problem than either method alone would. Country-to-country comparisons can be carried out by utilizing indicators of macroeconomic performance and quantifiable higher education expenditures on the one hand and by employing diverse sources of data like descriptive socioeconomic statistics, interview data, policy papers, and various laws, regulations, decrees on higher education, on the other.

The four countries most suitable both for testing the hypotheses posed here and for further generalizations the research ultimately intends to make are *Latvia, Lithuania, Hungary* and *Georgia*. On the whole, the settings are analytically relevant as countries share much of communist legacy in general and the tight centralized state control over higher education systems in particular. But countries show a considerable variance on private higher education growth patterns. Georgia is the example of a country where both the initial growth and the ensuing decline in the private sector size has been dramatic. The permissive legal framework for privately provided education was provided in 1991, and since then private growth was so rapid that by the academic year of 1995/96 the sector accommodated almost 34 percent of total enrollments. However, from that point there has been a striking reduction in the private sector enrollment share (Table 1 below shows private growth patterns in selected four countries).¹⁵ Furthermore, with few exceptions of semi-elite type universities, the private growth has mostly been in small, vocationally focused 'demand-absorbing' institutions. Other motives for global private higher education growth, such as religious and ethnic, play marginal roles in Georgia, despite the ethno-linguistic and religious diversity of the country's population.

¹⁵ Estonia and Romania – the countries that had experienced explosive initial expansion - also witnessed some reduction in the private sector size but only relative to the public sector. Only in Georgia did the enrollments in the private sector fall in absolute terms as well.

Table 1: Student enrollments at private institutions as the share of the total student enrollments (%)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Georgia	29.7	23.8	21.6	20.5	19.2	20.5
Hungary	12.9	13.2	14.0	14.2	14.2	13.7
Latvia	13.3	14.4	20.1	22.9	25.5	27.9
Lithuania	0.1	1.3	2.4	4.5	7.0	7.5

Source: *Private Higher Education in Post-communist Europe*, 2007. Slantcheva and Levy, eds.

In Latvia too, the authorization for privately provided education was provided early on in 1990, but the growth has been much more measured and in qualitatively different types of institutions. That is, ethnic-cultural and semi-elite motives account for the bulk of the private sector growth in Latvia. Another important point is that although private institutions grew gradually, currently Latvia's private sector accounts for almost one-third of all student enrolments and is one of the largest in the region.¹⁶ It is notable that since the regime change, Latvia's public higher education sector has been expanding too. In 1990 there were 10 public institutions, by the year 2000 their number had doubled.

In Lithuania, by contrast, the authorization to establish private institutions was only granted in 1999. Even after that, the increase in private enrollments has been remarkably slow. The very first private institution was established at the proposal of Vilnius Archdiocese and since then the religious motive has served as one of the key factors in further expansion of the sector. Out of four private universities that existed in Lithuania by 2001, three were established by religious organizations and only one – *the International School of Management* - with foreign involvement (Higher Education in Lithuania 2001).

Lastly, Hungary is the only country in our sample where private institutions existed before and even during the communist rule.¹⁷ Since the regime change, however, the growth of the sector has been somewhat limited. Hungary is the exception in the entire region not only because of the predominance of religious institutions, which accommodate more than half of all private sector enrolments, but also it stands nearly alone in having private (religious) institutions that are tax-exempt and almost exclusively financed by the state. Thus, private institutions here are much less private on finance - one of the key criteria defining private institutions.

With respect to governmental policies intended to facilitate the emergence of private higher education institutions, the selected countries also exhibit somewhat different patterns. The policy environment in Georgia before 2003 was closer to the *laissez-faire* policy posture.¹⁸ Absent accreditation and other quality control mechanisms,

¹⁶ Revealingly, it is larger than that in Georgia, Estonia and Romania, countries experiencing the most vigorous initial expansion.

¹⁷ Poland is another CEE country where the Catholic University of Lublin continued functioning under the communist rule.

¹⁸ Governmental change through the so called "Rose Revolution" in 2003 marked a fundamental shift in the regulatory regime towards both sectors in higher education.

government's role was limited to basic licensing of institutions. However, there is ample evidence that governmental authorities took a lax approach even in enforcing licensing requirements (Gvishiani and Chapman 2002). Furthermore, the private sector expanded rapidly to accommodate more than 30 percent of all student enrollments, but without any financial support from the government. Private institutions thus evolved in almost complete independence from governmental authorities. Only after the political changes of 2003, did the government start to assume an active role in higher education policy-making. Following the implemented reforms, the regulatory regime in which higher education institutions operate has changed dramatically: both public and private institutions need to meet strict licensing and accreditation criteria. Moreover, in order to foster a competitive environment, new funding policy allows students receiving state grants to choose between accredited public and private universities, while it permits higher education institutions to set their own tuition fees. Although grants continue to be merit based, uniform grants that were obtainable by only a few students have been replaced by those on a sliding monetary scale. Besides, a student loan scheme has been initiated in cooperation with commercial banks (Godfrey 2007). Georgia thus represents a sharp shift from the *laissez-faire* to the *market-competitive* policy posture.

Latvia is another example of a governmental approach towards private education that fits the *market-competitive* policy posture. From the outset, the standards of quality and material base required for licensing and accreditation have been set high. But the government has also ensured the transparency of these processes and their outcomes. Furthermore, Latvia is almost the only case in the entire region, where private institution representatives actively participate in higher education policy-making. Both *the Latvian Rector's Council* and *the Higher Education Council* - an expert organization offering a source of professional advice on most central issues of higher education - include private institution leadership. This stands in stark contrast to other post-communist nations where rector's councils and other newly created intermediary and planning bodies are exclusively comprised of public institution representatives and serve as main channels for exerting their influence on governmental policies, often aimed at restricting the entry of private institutions. However, in Latvia, like in most countries in the region, tuition and other private contributions constitute the primary source of institutional funding. The most common public financial aid available to institutions is in the form of buildings from respective local governments. State financial aid grants only apply to public university students, though the government sometimes provides funds for certain study programs if there is perceived need for the qualifications that private institutions offer (OECD 2002). Finally, since 2001, a policy of providing state guaranteed student loans has been implemented for any tuition-paying student enrolled at state-accredited institutions, which are free to determine both the number of students to be admitted and the amount of tuition charged.¹⁹

¹⁹ Tuition level varies greatly across institutions as well as study programs and is mostly determined by the student demand rather than by the actual costs of instruction provision. On the whole, the amount of study fees at the two sectors is comparable. For example, in 2003/04, the average level of tuition in public universities was USD 1, 666, while in private it amounted to USD 1, 429. However, tuition charged by top private institutions (USD 16, 667) are somewhat higher than those by top public institutions (USD 10, 095) (Latvia 2003). The same pattern of tuition pricing is observed in Georgia, where the cost of the study in few prestigious and competitive private universities is much higher than in any public university.

In stark contrast to this, Lithuania took a much more cautious approach towards liberalizing its higher education system in general and towards permitting private forms of education in particular. Attempts to establish a private university were disapproved not on the legal but on quality assurance and other grounds. The Lithuanian 1991 law on higher education did not address the question of private institutions explicitly, but it neither proscribed their existence. Even after the first authorization was granted, governmental policies, especially those for licensing and accreditation have remained by and large limiting. As OECD team has noted the highly centralized accreditation process characteristic to Lithuania reflects *a shift back to the most conservative forms of governance historically found in Continental universities* (OECD 2002). That is, centralized quality control evaluates individual rather than wider fields of studies, thus making the procedure for establishing a new study program extremely long and cumbersome. The additional issue for private institutions is that the requirements for accreditation do not differentiate between the two sectors, which make it almost impossible for institutions, without solid financial assistance from international or religious groups, to meet them. The roles and functions that private institutions should fulfill are further determined by the perceived need from governmental authorities. On the other hand, the results of quality assessments are not readily available to the public.²⁰

Not only in higher education governance and provision, but the Lithuanian government has maintained a stronger profile also in funding, to compare to other post-communist countries. As Table 1 shows, the private sector participation continues to be limited. Even in public institutions, the share of fee-paying students is relatively small. For example, in 2001/02, the state funded 66 percent of university and 80 percent of college students, to compare to 56 percent in Georgia and 30 percent in Latvia for the same year. Besides, the level of public tuition fees – one of the key factors for private institutions - is generally lower than in other countries and importantly, much lower than in Lithuania's private universities (Student-Parent Cost by Country: Lithuania).²¹ The Lithuanian governmental policies towards private institutions clearly fit into the *central-planning posture*. However, governmental use of the direct control mechanisms, rather than financial incentives, for maintaining control over institutions constitutes the distinguishing characteristic of this model.

Hungary presents another case of the *central-planning policy posture*. Positioned between the central government and higher education institutions, the functions of the two key intermediary bodies - *the Higher Education Scientific Council* and *the Higher Accreditation Committee* – include offering a professional advice on the most central issues of higher education. Forming their expert and authorized opinion upon relevance of the issues involved, the two bodies decide on the fate of individual programs and entire institutions alike. Strict criteria on which governmental review of proposed new

²⁰ As the OECD team evaluating higher education policy environment in Lithuania notes the whole process is obscure and non-transparent and does not insure public accountability (OECD 2003).

²¹ For example, the maximum amount of tuition charged by public institutions is USD 3 750, which corresponds to the minimum level at private institutions, whereas the highest reaches USD 16 460 USD (High Education in Lithuania 2003).

programs are based, coupled with far-reaching legal limitations and other professional barriers, make the establishment of new private institutions extremely difficult (Nagy-Darvas 1999). Furthermore, similar to Lithuania, Hungarian government continues to play major part in the public university funding. The authorization for charging tuition fees was granted in 1996, and since then the number of self-financed students has been growing relatively slowly.²² In 2001, out of all 16 percent full-time self-financed students half were those enrolled in the public sector. The conditions of the loan scheme that was put into operation in 2001 are such that, irrespective of their income status and financial needs, all students under 35-years of age studying toward their first degree are eligible for loans of a maximum about 100 USD per month for five years.

Finally, with respect to broad political-economic factors, Georgia is an outlier case in the sense that it's economic transformation (as well as political) has been most prolonged and painful, whereas the economies of the other three nations started to recover from the mid 1990s. Lithuania and Latvia are more homogeneous out of four not only with respect to the communist past but also with their political-economic transformation routs while presenting the most unlike picture of private sector development. Therefore, their analysis will be valuable for studying the reasons responsible for the discrepancies in outcomes. Lastly, the nations under consideration with their varying degrees of ethnic and religious heterogeneity offer a good possibility to empirically test the impact this variable on the private sector dynamics.

²² Public higher education institutions continued to draw almost all of their income from the state until 1995, when a policy of uniform tuition for all students was first adopted. Although the amount of tuition was almost symbolic (around USD 15 for full-time and USD 60 for part-time students per month), the fact triggered strong, organized opposition on the part of students. Owing to the protests, fees were abolished for the first-degree programs in 1998.

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