Market Forces in Higher Education---Chinese and British Experience between Mid-1980s and Mid-1990s

Xiaonan Zhao
Foreign Languages Department
China University of Petroleum (Beijing)
18 Fuxue Road, Changping District, Beijing 102249, China
E-mail: nancy_zxn@hotmail.com

Abstract
This paper tries to examine how higher education in China and Britain has been affected by market forces between the mid-1980s and the mid-1990s, from three major issues. Comparing the experiences of both places, the paper argues that unlike the case of British counterpart, where marketisation of education has shifted to a corporate management approach, the Chinese experience can be argued as being the government’s attempt to use market forces and new initiatives from the non-state sectors, rather than an ideological shift to managerialism and its practices.

Keywords: Higher education, Market forces, China, Britain

Strong market forces have significantly affected educational development in many countries. It has not only affected British education, but has also shaped educational policies in less developed countries, like China. The principle goal of this paper is to examine how higher education in Britain and China has been affected by strong market forces between the mid-1980s and the mid-1990s, with particular reference to the strategies which higher education institutions have employed to recover costs in education.

For China, it seems that the central government has adopted a policy of decentralisation in getting local governments to use multiple channels of resources and other methods to provide for their own educational services. Britain, however, has adopted quite a different approach by employing the principle of managerialism in order to enhance its competitiveness in providing quality education to meet the increasing market demands. Hence, the present study is to compare and contrast the educational reforms and coping strategies that have been adopted by the socialist China, on the one hand, and the capitalist Britain, on the other hand, in order to face this new challenge of marketisation.

1. Theoretical background
What do we mean by a “market”? In the most primitive sense it is a place, or a gathering, or an opportunity for buying and selling. In general, it is a social institution for the systematic exchange of commodities for currencies between vendors and customers (Ziman, 1991). Market forces are simply those factors which make markets work. According to Howarth (1991), a market — in higher education or elsewhere — has two essential characteristics: it allows individuals to register choices and wants — to transmit market signals — and it gives others an incentive to respond to such signals and to satisfy the wants expressed.

Levin (2001, p.241) illustrates the behaviours of market forces: institutions align themselves close to the private sector, and they compete with other institutions and organisations for revenues; they form associations with private business and industry; they solicit private donations of money, goods and services, which they acknowledge through publicity and tax benefits.

Recent decades have brought considerable questioning of the state’s ability to manage a monopoly of public services. Realizing the importance of productivity, performance and control, governments have begun to engage themselves in transforming the way that services are managed (Flynn, 1993). The shift from the traditional public administration paradigm to the new public management marks a move towards a more transparent and accountable public sector. Central to the notion of “new public management” is managerialism and marketisation of the public service. The aim of managerialism, according to Pollitt (1990) is to introduce a more effective control of work practices. The marketisation of public services, that is, the development of market mechanisms and the adoption of market criteria within the public sector, is a major feature of the new public management (Hood, 1991).

The strong market forces have made higher education institutions re-orient themselves to be more sensitive to market needs. They have significantly affected educational development in many countries. As resources and funds of individual universities are determined by their research output and the employability of their students, higher education institutions have become more “cost-consciousness”. In Britain, higher educational institutions have tried to give more choices and options to students, and as well, adopted market principles and introduced “competition” to the educational sphere. “Quality” has become a key word in the public debate about higher education. In order to assure “quality
control” in education, institutional auditing has emerged in Britain (Barnett, 1992). Even though the assessment of teaching and research is justified by the quest for quality, efficiency and effectiveness, its undertaking has undoubtedly brought about financial consequences.

Strong market forces have not only affected British education, but have also shaped educational policies in less developed countries. Evidence in the countries in East Asia and the Pacific region over the last decade or so, have been an educational reform agenda around such notions of “excellence”, “enhanced international competitiveness”, “quality”, and the like (Zhou & Cheng, 1997). Being dramatically influenced by strong market forces and the ideas of “corporate managerialism”, the running of education has focused on “results and efficiency and effectiveness, decentralized management environments, flexibility to explore alternatives to public provision of services, establishment of productivity targets and a competitive environment between public sector organizations, along with the strengthening of strategic capacities at the centre of organization” (Taylor et al. 1997, p.82). In short, the impact of managerialism implies a less state directed approach being adopted while market ideologies and practices are becoming more popular in the running of the public sector.

In such a wider policy context, let’s examine whether and how higher education in China and Britain has been affected by market forces. The following discussion is confined to three major issues: user charges, cost recovery and the introduction of “competition” in higher education.

2. The Marketisation Experience in China

Policy and Reform between the mid-1980s and the mid-1990s

Chinese economic system used to be very highly centralized. To adapt to that, the former higher education system was also centralized, with education provided by the central and local government respectively and directly under their administration. Along with the transmit from highly centralized planning economy to a relatively decentralized, market-oriented economy, profound changes have also been taking place in higher education. The government has carried out a wide range of policies since 1985 which shows that China has been moving in the direction of “decentralisation” and “marketisation”.

In 1985, Chinese Communist Party (CCP) issued a “Decision” on educational reform which acknowledged that over-centralisation and stringent rules had hindered the initiative and enthusiasm of local educational institutions and decided to devolve responsibilities and power to lower levels of administration. This decentralisation policy in educational realm is to allow local government, local communities, individuals and even other non-state actors to create more educational opportunities (Hayhoe, 1989). In 1993, the CCP emphasized its support for the decentralisation and diversification of educational services which stressed its policy change from direct control to managing schools through legislation, funding, planing, advice or policies and other necessary means. By 1995, the Education Law had further revitalised local community and informal sector support to education. Thus, decentralisation of management and financing was further stressed.

Coinciding with this is to empower all educational institutions to conduct their affairs in accordance with the ordinances and rules. In return, more autonomy is granted for them to decide matters about student enrolment, issue of academic credentials and recruitment of staff members (Mok, 1999). Concepts like “efficiency”, “effectiveness” and “competition” have been introduced in the management and governance of the educational sector, while the demand and supply of the labour market have begun to play a more important role than the former manpower planning approach.

A second wave of reform started in the late 1980s and was formalised in 1993. This was the abandon of job assignment system for graduates and the adoption of fee-paying schemes for university students (Cheng, 1994; Pepper, 1990). Both measures could undermine the very foundations of a planned economy. The job assignment system was the destined result of strict manpower planning, according to national needs. The abolition of this system mirrors the growing significance of the market force in matching employers with employees. The fee-paying scheme breaks away substantially from a system of heavy state subsidy and reflects a general shift from an ideology which favours the proletariat.

It is under such policy contexts that China’s education has been undergoing the process of marketisation. The areas where marketisation has occurred are many and various, but three features are obvious: the adoption of a user-charge principle, the diversified educational financing and the introduction of internal competition.

2.1 The adoption of a user-charge principle

Prior to the 1980s, Chinese higher education was free of charge, for the state bore almost all the expenditures of running a higher education institution. But after the endorsement of a socialist market economy in the CCP’s Fourteenth Congress, the State Education Commission officially approved institutions of higher education admitting up to 25% of students in the “commissioned training” or “fee-paying” categories in 1992. In 1993, 30 higher learning institutions were selected for a pilot study for a scheme known as “merging the rails”, whereby students were admitted either
because of public examination scores or because they were willing and able to pay a fee though their scores were lower than what was required. In 1994, more institutions entered the scheme and the fee-charging principle was thus legitimatized.

The most important underlying factor behind the rising number of fee-paying students is perhaps the government’s determination to substitute a more diversified funding structure for the old monolithic one which has shown an increasing inability to cope with the expansion of higher education. China has long faced the contradiction between, on the one hand, insufficient financial resources and, on the other hand, an enormous size of the applicant pool for higher education institutions and a severe shortage of well-educated manpower. The contradiction has become more acute since 1978, intensified by rapid economic growth which requires more scientific and technological personnel, and by the rising aspirations of Chinese youth which stem partly from the growing size of the school-age cohort and partly from an upgrading of the overall educational level (Yin & White, 1994).

From 1997 onwards, all students who want to enroll in higher education have to pay tuition fees. Scholarships and other types of financial support are allocated based on academic distinction and financial assistance funds are allocated to the students from poor family.

2.2. The diversification of financing

A general trend of diversified educational financing suggests that China’s education has become more “marketised”. In the higher education sector, the state financial provision has gradually reduced, while grants and funds generated from other non-state sectors have become increasingly important (Min, 1994). As early as 1980, a circular issued jointly by the State Education Commission, the Ministry of Finance and the State Planning Commission declared and aimed to expand the potential capacity of Higher Education Institutions and create new sources of funding, to strengthen the relation and co-operation between institutions and the employers, and to construct channels whereby institutions supply specialized manpower to non-state and individual enterprises.

Under this policy guideline, incomes have generated through economic activities operated by the institutions. Like higher education institutions elsewhere, the most established institutions in China sell research products for additional income, so that close partnerships between industries and the educational sector have developed.

With favourable official policies and legal provision stipulated in the Law of Education encouraging universities to run business firms and enterprises, many school-operated factories and school-operated companies have emerged.

In addition, other revenue generation strategies, such as offering commissioned courses, running adult education and evening courses, donations from enterprises and individuals at home and from organizations and individuals overseas are becoming very popular in the Chinese universities sector.

Apart from the activities and strategies adopted in the university sector, university students have to pay for their tuition fees. The emerging of fee-paying students in the 1990s implied the time by all the students enjoying the free charge of higher education finally came to the end.

Up to this point, it is clear that higher education institutions have searched for different methods to diversify their educational funds. Higher education institutions in China have tried to earn more income by venturing into the commercial and business fields. With more emphasis being put on resource allocation and performance, it can be argued that China’s higher education is beginning to feel the impact of marketisation.

2.3. The Introduction of “competition” to enhance efficiency and effectiveness.

Drawing comparative insights from leading universities in other countries, the CCP has begun to realize the importance of bringing about substantial improvements in its university education. The central government has, since 1993, introduced the 211 engineering project to express intentions of the state to identify and give special financial support to 100 of the best universities by the twenty-first century.

Central to the scheme is a plan to introduce “competition” among universities, rewarding the top 100 higher educational institutions. All universities are assessed by quantifiable, objective criteria on staffing, buildings, libraries, laboratories, research and funding, etc (Chan & Mok, 2001). In order to improve their research and academic profile, many universities like Shanghai Universities, have merged with other local colleges and universities to form comprehensive universities. The 211 programme means that “internal competition” has been introduced among universities.

After the introduction of “competition” in the University sector, the resources and funds of individual university are determined by their research output and the proportion of graduates getting employment.

In 1998, the Higher Education Law was promulgated to allocate additional funds in support of the development of Beijing University and Qinghua University, which are considered the two top higher education institutions in China; individual provinces or cities can choose one university and allocate additional funds to help its development in their regions. Thus, in order to get financial support from central or local government, an “internal market” is evolving in the Chinese university sector.
Educational services are priced, the diversified financing, together with the internal competition are highly suggested that China’s education has gone through a marketisation process.

3. The Marketisation Experience in Britain

Policy and Reform between the mid-1980s and the mid-1990s.

The marketisation of British higher education was not of course unique. It was part of a world-wide change in public sector management of which the most dramatic manifestation was the downfall of the centrally planned economies of Eastern Europe. In general, there has been a growing interest by many governments in the introduction of market types of organization and in the use of financial incentives to encourage a more efficient allocation of resources. This movement towards market approaches has taken several forms, depending on the educational level concerned. However, it is possible to discern a common trend towards increased use of funding formulae and greater financial autonomy for institutions, as well as increased competition in the provision of educational services (Williams, 1997).

Nearly all the British government reforms of the 1980s and 1990s have involved a movement towards market approaches. Essentially there have been two forms of marketisation, privatization and the creation of quasi-markets. In what are seen as welfare services, for which full privatization is not deemed to be appropriate, the concept of quasi-markets has been introduced. In essence this means a government agency performing the role of surrogate customer, and purchasing services on behalf of the ultimate consumers, from service suppliers such as hospitals, schools, and universities. While the transformation of British higher education dates back to the early 1980s, the last decade have seen incredibly rapid change. The salient changes that occurred then were striking both in their speed and magnitude: not only did the number of students almost double – as did the number of institutions empowered to award degrees; but also the proportion of young people entering higher education rose across the UK is a whole from less than 20 per cent to almost a third and to more than 40 per cent in Scotland. What is more, in 1992 the polytechnics – along with a couple of colleges of higher education – became universities. The UK’s binary higher education system had become a single, unified system with integrated mechanisms for funding and the assurance of quality (Editorial, 1998).

3.1. Widening Access

As modern economies restructure and reposition themselves in a competitive, post-imperial and global market place, governments require that higher education provides democratic access to high-quality qualification for greater numbers of students, while at the same time demonstrating that they are contributing directly to national economic effectiveness through the production of relevant new knowledge and highly qualified output (Coffield & Williamson, 1997).

Historically, British higher education has had a low participation rate compared to the U.S. or continental Europe. The government had by now espoused a policy of encouraging enrolment expansion to bring U.K. enrolment levels up to the levels of most other OECD countries and it aimed to do this as inexpensively as possible through the use of market mechanisms. In 1989 a package of measures was agreed to with the Treasury whereby the fairly generous maintenance grants received by all British full-time undergraduate students were to be progressively replaced by repayable loans and the Treasury agreed to pay fees up to about 30 per cent of teaching costs of an unlimited number of students. Policies and funding formulas have rewarded expansion; consequently, institutions could not afford not to increase in size (Green, 1995). As a result many institutions increased their enrolments spectacularly from 1990 onwards by as much as 25 per cent per year for 2 or 3 years in some cases.

The Institutions soon realized that international students now brought with them significant cash value that was free of government constrains. To get cash value accruing from full-fe paying international students, they abandoned their previous passive attitude to foreign student recruitment and undertook vigorous recruitment drives (Bruch & Barty, 1998). Both these reactions, for foreign and U.K. students, were essentially market responses, determined by the mechanisms by which universities received their funding and the regulations which governed them.

3.2. The internal competition

3.2.1. A new ecology of higher education: The end of the binary system:

Until 1992, the polytechnics and the universities had separate funding mechanisms and quality review procedures. The University Grants Committee (UGC) was the principal mechanism for university funding. The University Funding Council (UFC), which replaced the UGC brought the government more closely into funding decisions; the polytechnics, whose missions and organization were historically different from those of the old universities, were largely funded by the Local Education Authorities and under the National Advisory Board for Local Authority Higher Education (NAB).

The current system reflects two additional important changes. In April 1989, the polytechnics became independent corporations, no longer under the control of local government; in 1992, they became universities and were merged with the old universities into a single system for funding purposes. Similarly, the separate funding bodies for the two sectors, the UFC and the PCFC were merged in 1993 to form a single Higher Education Funding Council of England (HEFCE) (There are separate Funding Councils for England, Scotland, and Wales; each has different policies and different procedures.)
Once funded separately, the old and the new universities now compete for resources under the control of the Higher Education Funding Councils. The competition for research funding has had a notable effect on institutional mission and behaviour. Under the current incentive system, each academic department’s research programs and productivity are evaluated. The “grade” resulting from this “research selectivity exercise” is translated into a grant to the university; the higher the grade, the larger the allocation. It should be no surprise that the new universities are scrambling to develop the research capacity formerly reserved for the traditional universities.

Because the funding system also rewards increased student enrolments, the old and the new universities will undoubtedly find themselves increasingly competing for students. This competition will occur especially in fields of study where there is overlap of institutional offerings; it will be more of an issue for the less prestigious old universities, which will find themselves in competition with the new universities. As the population of adults and part-time students grows, so will the competition to attract these learners.

3.2.2. Proving Excellence: living with quality assurance

British universities are under the assessment microscope; quality must be proved. In the early 1990s, intending to improve educational services offered by the public sector, school authorities in Britain have tried to give more choices and options to students, and as well, adopted market principles and introduced “competition” into UK higher education (Mok & Wat, 1998). The competitively-established resource input was determined by government using the results of the Research Assessment Exercise (RAE) and a Higher Education Funding Councils’ Formula (HEFCE). Together they were used each year to purchase over £600 m of research for the nation.

The Research Assessment Exercise (RAE) requires departments seeking research funding to submit details of their research aims, activities and achievements. As Curran (2000) says that the complexity of the RAE has raised over time and by 1996 the assessment scale was under eight headings like: overall staff summary, publications or other public output, research students, and external research income. The information was evaluated by a panel for each subject area and a grade awarded on a rating a scale that in 1996 contained seven points of 1, 2, 3b, 3a, 4, 5, and 5*.

The second assessment mechanism, in effect since 1993/4 academic year, is the research selectivity exercise conducted by the Higher Education Funding Councils’ Formula (HEFCE) (Curran, 2000). For purposes of these assessments, the university world is divided up into 72 fields. Departments are rated by a panel of peers from universities on a scale of 1 to 5. Each department completes a self-assessment and provides supporting documentation. Assessments are carried out approximately every four years and funding for that period is tied to the rating received. In 1997, the funding formula used by the Higher Education Funding Councils to allocate research funds was changed: most of the monies were allocated per department on the basis of a weighted RAE grade (the quality measure), and average cost for the subject and a volume measure according to the number of research active academic staff, research students and research assistants.

Reactions to the two types of government mandated assessments have been mixed. However, there has been the recognition that some good has emerged from the assessment. Competitive advantage lay within those institutions that could create an environment which fostered research-successful departments; in many cases for the better.

3.2.3. Funding resources:

Universities had to be both relevant and wealth producers. Their independence had to be undermined and they had to become more entrepreneurial, so that British Government cut the size of the higher education grants to universities and introduced efficiency gains in order to make them more responsive to the demands of the market where they could earn income from both teaching and research (Jarvis, 2000).

Following the public expenditure cuts of the early 1980s, there were various attempts by the government to encourage higher education institutions to move in directions wished for by government. In broad terms these took the form of encouraging them to concentrate their efforts, in both teaching and research, more explicitly on what the government perceived to be the needs of the economy. It was also in the mid 1980s, however, that the government began its strategy of continuing to reduce general funds while making money available on a competitive basis for specific initiatives that the government wished to encourage (Williams, 1997).

The existing Funding Councils were created to bring a market mentality to the funding process, whereby the government “purchases” services from the universities. Government funds for academic programs are allocated through several streams. First, institutions receive an allocation for instruction, based on a competitively determined formula for the cost of instruction per student in a given discipline; the methodology is designed to reward efficiency rather than quality. It can be argued, however, that this is really a “pseudo-market” approach, since the government controls the policies and the funds. A second income stream is a block grant for research; the amount is pegged to the results of the research evaluations. The majority of the research funding, however, is given for support of specific research projects, coming from the Research Councils or private industry. Allocations are also made for capital expenses.
In addition, universities are urged to raise money from non-government sources. For example, they have raised research money from trusts or from industry and by securing sponsorship for particular activities; they have appointed public relations officers, hunted benefactors, staffed fund-raising development units and squeezed their alumni to the limits of their generosity. These efforts have had some success: the proportion of their income got from non-government sources – with great variation among institutions – has increased year by year for the last decade.

4. Lessons Drawn from this Comparative study

The above presentation has indicated that the central government in P.R.C, has gradually forsaken its major role in the provision of educational services, adopting a fee-charging principle to recover a large proportion of costs through tuition fees and exploring other means to recover costs. Multiple channels of financing include educational surcharges, local government subsidies, tuition fees, and funds raised from other activities. These developments show the state and non-state sectors’ shared responsibility in providing educational services. Above all, according to Mok (1997b), the efforts to recover costs in education and the expansion of private and people-run education reflect the fact that China’s education is going through a process of what could be described as privatisation and marketisation.

In view of the changes in China’s educational provisions during the mid-1980s and the mid-1990s by-emphasising the importance of individual responsibilities and encouraging local communities and social organisations to create additional educational opportunities, it can be said that the Chinese government is continuously reducing its educational subsidy, provision and regulation, moving from a typical state control model towards a state supervising model in order to vitalize and better mobilize universities economic development (Min, 1994). The boom in private higher education and the introduction and adoption of user-charge principle suggest that a “quasi-market” is evolving. However, despite the fact that signs of privatisation and quasi-marketisation have occurred (Chan & Mok, 2001), the “internal market” in China’s education has not yet fully developed, and the split of purchaser and provider is still in the process of evolving. The strategy of privatisation / marketisation as adopted by the Chinese government is highly instrumental, aimed only to improve administrative efficiency and effectiveness, rather than to make a fundamental shift in value orientation (Mok, 1997b). In fact, the private sector still plays a very limited and peripheral role, under the dominance of public institutions, in the provision of educational services.

On the other hand, working in a policy context in which the quest for quality, efficiency and effectiveness is emphasised, educational practitioners and academics in Britain are looking for an objective measurement of quality. Unlike the case of China, Britain government has committed herself, both ideologically and practically, to the practice of “managerialism”. The education reforms during the mid-1980s and mid-1990s in Britain have undoubtedly shown that the government has been influenced by the tidal wave of marketisation in enhancing the efficiency, effectiveness and economy of education.

Comparing the experiences of both places, we can argue that Britain’s education has definitely been affected by the strong tide of managerialism. In this regard, the education reforms in Britain can be understood as a response to the concerns raised in the local community as to whether academic quality can be maintained, especially after turning from an elitist system to a mass education.

Though the reforms in the educational system in China seem to suggest that China’s education has been going through a similar global experience of marketisation, a closer scrutiny clearly indicates that it is far more “instrumental” when adopting market mechanisms, which are intended as a measure to improve administrative effectiveness rather than to make a fundamental shift of value orientation towards notions of public choice. Unlike the case of British counterpart, where marketisation of education has shifted to a “corporate management” approach, the Chinese experience can be argued as being the government’s attempt to use market forces and new initiatives from the non-state sectors in order to create more learning opportunities, rather than an ideological shift to managerialism and its practices.

5. Conclusion

In comparing and contrasting the “marketisation” projects in both China and Britain, we must understand the differences between the Chinese experience of “marketisation” and the experience and practice of marketisation in Britain. Clearly commercial aspects, user-charge principles and a limited role for private provision in China do indicate that state has reduced its role in educational provision and financing, but this process does not mean that the state would withdraw its total control. The “marketisation project” in China must be understood and analysed in light of the wider context of the “demonopolisation” of the state’s role in the public domain (Mok, 2000), with its own way of governance.

Even though we have been arguing that the educational developments in China and Britain have been experiencing a similar global trend in the reduction of the role of the state in education, the so-called global tide of “marketisation” should not be treated as a simplistic notion of a same universal global trend. In Britain, the state’s diminishing role in the public services is giving more impetus to the market’s growing efficiency and effectiveness.
Therefore, we must not analyse “marketisation practices” in education in these two countries simplistically in terms of a one-dimensional movement from the state to the market. Hence, as I suggest, the international phenomenon of marketisation in different places should be understood differently, in each place, in its own right.

References


