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# The rise and fall of the private sector in Portuguese higher education

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## Abstract

The steering and regulation of Continental European higher education systems remains, in general, dominated by State authorities. However, recent developments in public administration and finance have produced some changes in the traditional role of the State as the sole provider of funding and central regulator for higher education institutions. The idea of a “market” for higher education has also been used, in many countries only in a rhetorical way, but in other countries some market-like mechanisms are actually being employed by governments in order to increase the efficiency and the responsiveness of universities and colleges to societal demands. In Portugal, a very large private sector of higher education has been allowed to develop. By analysing the governmental policies vis-à-vis its results, we arrive at the conclusion that, despite this very large private sector, no “real” market has emerged, and that the simultaneous lack of efficient State regulation has resulted in a situation of deep crisis for the sector. © 2000 International Association of Universities. Published by Elsevier Science Ltd. All rights reserved.

*Keywords:* Portuguese higher education reforms; Private higher education; Market; Autonomy

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## 1. Introduction

Traditionally, Continental European higher education has been under tight State control. Seen first, amongst other things, as an instrument for promoting the

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modernisation of society, and later mainly as an instrument for promoting social mobility and wealth, it has for long — at least since the beginning of the 19th century — been in the public domain where its funding and regulation were State responsibilities.

However, recent developments in public administration and public finance have stimulated the emergence of a different context for public intervention, and have had a profound influence on the relationship between the State and higher education institutions. Pressed by growing financial constraints and by an increasing cost-burden due to the massive expansion of the higher education sector, governments have searched for ways of redefining not only their financial role, but also their administrative and political roles.

Until the mid-1970s the Portuguese higher education system was clearly an elite system. It was characterised by low enrollment levels, despite some attempts to increase the overall participation rate. Moreover, the political and social changes brought by the 1974 democratic revolution enhanced the pressure for expansion of the public system<sup>1</sup>.

In the mid-1980s, the idea of significantly expanding the role of the private sector gained political support, as this expansion would allow for an increase in enrollments with a minor cost to public finances. Moreover, the private sector was seen as capable of offering a supply that was better balanced (from a geographical and disciplinary perspective) and more suitable to labour market needs. It was hoped that this capacity for exploring new market opportunities would result from its higher administrative flexibility and financial motivation.

Accordingly, the context for an expansion of the private sector was set. There was a fast response from private agents who promoted an increase in the number of students from about 20,000 in 1987 to almost 100,000 in 1995. At the same time the enrolment in public sector increased from 100,000 to ca. 170,000 students.

Notwithstanding this quantitative success, the rise of the private sector has become a major headache for the public authorities. Its geographical and disciplinary distribution, the balance between teaching and research, the quality of the degrees provided, were quite different from political expectations, thus creating several tensions within the system. Furthermore, they did not prove to be more responsive to economic needs than the public sector.

## 2. Reasons for increased interest in markets in higher education policy research

Ever since economics became established as an autonomous science, the *market* has been a crucial concept in economic theory. Moreover, within economic theory the market concept has been developed in such a way that it is seen as co-

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<sup>1</sup> At that time the only non-public higher education institution was the Catholic University, founded in the late-1960s.

ordinating almost all spheres of human life, becoming the central instrument for organising society and its entire institutional framework. Recent political developments suggest that this could also be the case with respect to higher education systems. Indeed, throughout the 1990s increased attention is being paid, both theoretically and politically, to the relevance of market mechanisms to education in general, and to higher education in particular.

Several conditions have favoured this growing attention. First, the increasing financial constraints on government budgets have challenged the traditional role of public funding for higher education (OECD, 1990). Second, several studies have pointed to the diminishing relevance of social returns on higher education compared to social returns of other, lower levels of education, or compared to private returns resulting from higher education degrees (see among others Psacharopoulos, 1994). Third, these studies are accompanied by a general feeling of scepticism towards the externalities traditionally associated with higher education. Fourth, the empirical evidence on the (perverse) distribution effects of most public funding schemes for higher education, according to which the main beneficiaries of these funds are members of affluent groups in society rather than students coming from the lower classes (Hansen, 1970). Finally, the widespread political belief (since the 1980s) that public institutions should see efficiency as a leading value in their activities (Cave, Kogan & Smith, 1990).

Altogether, this has challenged the traditional role played by public authority, especially in most Continental European countries, where the State has a hegemonic presence in higher education systems. The State has steadily tended to develop a less hegemonic role, amongst other things, by enhancing the search for alternative, non-public funding sources. Moreover, the growing importance of the market dimension in higher education systems is closely connected with specific trends in higher education policy, especially in relation to changing the steering strategy with respect to higher education, and to strengthening institutional autonomy. Accordingly, higher education institutions have been required to face the demand for more responsiveness to external pressures. In addition, they are expected to develop a different relationship with the State authority (supervisory State). Institutions have been stimulated to become more autonomous and more competitive.

These claims for more responsiveness to external pressures have frequently been associated with the development of the so-called quasi-market structures for higher education institutions (OECD, 1990, p. 79–81)<sup>2</sup>. The use of the “quasi-market” expression reveals reserves about the possible existence of a market-system in higher education. The absence of several characteristics of competitive

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<sup>2</sup> By quasi-market structures we mean policy changes towards the adoption of limited market-type mechanisms in selected areas (Niklasson, 1996, p. 7). This formulation is preferable, when we are referring to higher education, to those that tend to see higher education institutions as economic units in the sense that the economic theory usually defines them (Goedegebuure, Kaiser, Maassen, Meek, van Vught, de Weert, 1994, p.5).

markets in higher education has been pointed out. In particular, it has been indicated that the prices of educational services are not established at marginal cost level, that higher education institutions are not profit-maximisers, that some of them receive public financial support while others do not (in spite of being a part of the same system), and that available information is far from being complete (Dill, 1997b). Therefore, analyses have been directed towards the existence of market *elements* rather than towards a market in higher education.<sup>3</sup>

As is usually the case with basic concepts, the concept of the market is one of the least discussed among economists, with most of them taking its meaning for granted. In fact, most of the references are tautological, with the market being not very different from God to most believers. It just exists and you do not feel the need to discuss it or to explain its existence.

Briefly, one can consider a market as “a mechanism which produces prices” (Neale, 1957, p. 358)<sup>4</sup>. These prices will then regulate the interacting forces of supply<sup>5</sup> and demand<sup>6</sup> of goods and services. Hence, Neale considers the market (as interpreted in economic theory) a supply-demand-price mechanism, meaning the systemic adjustments of prices and quantities whenever a change in any of these prices or quantities occurs. Therefore, when talking about markets, we should consider a system of markets rather than the concept of market.<sup>7</sup>

In order for this mechanism to work effectively within this system of markets, several conditions need to be fulfilled. First, we should consider the establishment of individualised and protected property. Although there have been several theoretical attempts to test the implementation of market economy in the absence of private property, the most frequent and straightforward situation (both in theory and in reality) is the prevalence of private property. Second, this private property needs to act with a reasonable degree of economic freedom. This allows individual agents to make their choices according to a criterion of the pursuit of economic interest. Third, these choices are interdependent since they are made within a framework of competition between individual agents. Finally, we cannot count the so-called market failures, in which the market does not lead to an

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<sup>3</sup> David Dill points out, correctly, that it would be better to speak about markets in higher education. Therefore, one should consider a market for research, a market for undergraduate teaching, and so on (Dill, 1997a).

<sup>4</sup> This is different to the market of other social scientists, which is the market place (where people meet for a transfer of goods) (Neale, 1957, p. 357).

<sup>5</sup> Understood as the quantity of goods in the market at a given time, which varies directly with price.

<sup>6</sup> Defined as the amount of goods that buyers are willing to buy at each price, usually varying inversely with prices.

<sup>7</sup> Which could give the erroneous impression that a market can exist in isolation.

optimal solution. The classic examples are those of natural monopoly<sup>8</sup>, externalities<sup>9</sup> and public goods<sup>10</sup>.

Therefore, the promotion of a market dimension in higher education (or any other sector or activity) has to be implemented through the promotion of private ownership, increasing autonomy of the agents (in our situation the institutions of higher education), and increasing competition between the agents. Next, we will analyse a policy strategy that has attempted to promote a market for higher education by emphasising the first aspect, and compare its purposes vis-à-vis its results.

### 3. The promotion of the private sector in Portuguese higher education

#### 3.1. Political discourse

The right to Education, at any level, was not guaranteed by the old 1933 Portuguese Constitution. In contrast, the new 1976 Constitution has recognised the right of all Portuguese to education, as well as the freedom to teach and to learn (articles 43 and 74). It also guarantees the right to establish private and co-operative institutions (article 43), but determines that the State will provide for the needs of the whole population (article 75) and will recognise and supervise private and co-operative education (article 74):

##### 3.1.1. Article 43: freedom to teach and to learn

1. Freedom to teach and to learn is guaranteed.
2. The State shall not arrogate to itself the right to plan education and cultural development in accordance with any philosophical, aesthetic, political, ideological or religious precepts.
3. Public education shall be non-denominational.
4. The right to establish private and co-operative schools is guaranteed.

##### 3.1.2. Article 74: education

1. Everyone has the right to education with the guarantee of the right to equal

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<sup>8</sup> This is the case when the customary inversion of the marginal cost curve (U-shaped) occurs for a non-relevant point (quantity) of the market.

<sup>9</sup> The situations considered are those where the costs of a determined behaviour are imperfectly transmitted via the market mechanism. Moreover, there is a rather imperfect identification between those that support cost and those that support the benefits.

<sup>10</sup> These are goods that do not verify the rivalry and exclusion conditions in their consumption. Accordingly, the consumption of one agent does not reduce significantly the quantity available for other agents (non-rivalry), and it is rather difficult or even impossible to exclude one agent from consuming/benefiting from that good (non-exclusion).

opportunities for access and success in schooling.

2. Education shall contribute to the overcoming of economic, social and cultural differences, to equipping citizens for democratic participation in a free society and to the promotion of mutual understanding, tolerance and a spirit of community.

### 3.1.3. Article 75: public, private and co-operative education

1. The State shall establish a network of public educational institutions to meet the needs of the whole population.
2. The State shall recognise and supervise private and co-operative education, in accordance with the law.

Initially the development of private higher education was favoured both by a sharp increase in demand and by the fact that public institutions were involved in deep political turmoil in the aftermath of the 1974 revolution. A sizeable number of professors had been expelled from public universities because of alleged loyalty to the former authoritarian regime, student unrest was rampant, and more time was being spent in general assemblies of professors, students and workers than in the main tasks of the university: teaching and research. So, at the time, the new private institutions could be presented as a peaceful oasis<sup>11</sup> where quality would be granted and traditional values were handed down. The fact that several of these new institutions were patronised and controlled by some of the more conservative academics expelled from public universities also had some influence on this process.

Private higher education has been able to get strong political support from its very beginning. Roberto Carneiro, a former Minister of Education (1987–1991) is the editor of an extraordinary book (Carneiro, 1994) with contributions from well known actors in the Portuguese political and educational arenas, including several Ministers<sup>12</sup>. The book contains a defence of private higher education and Roberto Carneiro even writes a chapter entitled “*Manifesto Against State Hegemony*”. In this book he claims that:

“(...)The situation of free education<sup>13</sup> is one of the most accurate barometers

<sup>11</sup> The idea of oasis however did not last long. The internal fights for control of the first established private institution, the Universidade Livre (Free University established in 1979 — this university was given a provisional permission to operate on the 1st of March of 1979) were quite open and public, and were only solved with the destruction of that institution and the establishment of the Universidade Lusíada in Lisbon and the Universidade Portucalense in Porto.

<sup>12</sup> This includes among others three former Ministers of Education, a former Minister of Finance, a political advisor of the President of the Republic, the Secretary of Education of Macau, the Minister of the Republic for the autonomous region of the Azores, a bishop and several high level employees of the Ministry of Education.

<sup>13</sup> It is obvious that for him “free education” means “private education”.

of the healthy condition of a society's fundamental freedoms and of the degree of maturity of its institutions".

(...) "A developed nation is thus the one which unites a State aware of its subsidiary role and a society endowed with self-regulation mechanisms sufficient to cherish the development of fundamental freedoms and this includes without any shade of doubt the freedom of education".

The book starts with a first chapter laying the doctrinal foundations of private education and tries to justify its development as a fundamental ingredient of democracy. Also other authors praise private higher education as the recipe that will solve most of the problems of Portuguese higher education. For instance, Sousa Franco (1994) compiles several arguments (or criteria) in favour of "free education":

"(...)The fulfilment of the regional demand — and in many cases of the social demand — of our country (in a country highly centralised and too unbalanced in favour of the coastal area and of the great centres) has only been adequately guaranteed by private education. (...) This fact seems to confirm that decentralisation and the fulfilment of regional education needs can be favoured by free initiative in education".

and also that:

"(...)A system of free (private) education can be — and has been in many cases — a relevant factor in decreasing regional disparities of access to the education system, by enlarging the non-public education network to the regions and to some more unprotected population sectors."

and, considering that "...as a rule, monolithism and bureaucracy dominate education systems all over the world", he believes that private higher education has a considerable capacity for developing the system's diversity.

What becomes obvious is that private higher education has been regarded by leading political actors as an important ideological instrument for strengthening Portuguese democracy, and as a tool for its social and economic development. Consequently it is no surprise that private higher education institutions have developed under the protection of at least an important fraction of the leading figures in Portuguese political life, who have acted as opinion makers and, whenever possible, also as policy makers. We will see how this development has taken place.

### 3.2. Policy changes

It is generally accepted that Roberto Carneiro was largely responsible for the policy construction that allowed the explosive expansion of private higher education, as well as for its practical implementation when he was Minister of Education.

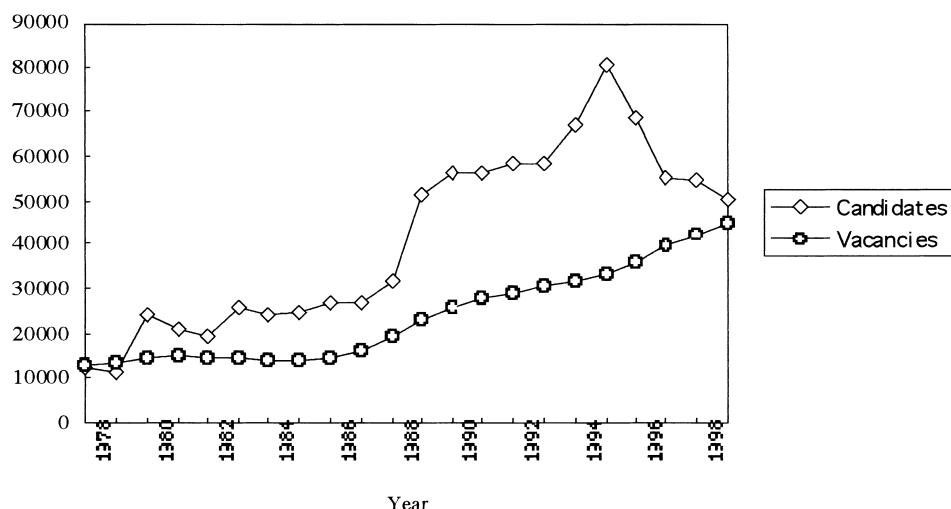


Fig. 1. Number of candidates and vacancies in public institutions.

The first component of the new policy was the establishment of very favourable market conditions for an explosive development of the private sector by artificially increasing the demand. In 1988 he changed the rules of access by loosening the requirements for entering higher education — national entrance examinations were to be used only for ranking students in the national tender for vacancies, without any minimum required levels. As can be seen from Fig. 1 this resulted in almost doubling the number of candidates overnight. Since it was obvious that the public institutions could not meet this increase in demand, many candidates had to find a place in private institutions.

Fig. 1 also shows another anomalous increase of demand, in 1994 and 1995. This was the result of administrative action taken by the then Minister Ferreira Leite in order to facilitate the finishing of secondary education by a large number of students that had accumulated over the years. This was due to exceptional conditions for transition and registration of students, in consequence of the reforms of the 11th year in 1994/95 and of the 12th year in 1995/96.

The second component of the new policy was the government's decision to ease the restrictions on teachers accumulating teaching activities in both public and private institutions, in order to allow for the fast development of the latter. This policy had a negative effect in some areas of the public sector on the quality of teaching programmes.

Some other attempts were also made to foster the private sector. One of the most obvious weaknesses of the private sector relates to the fact that it is far more expensive than the public sector. In the public sector<sup>14</sup> students pay only a very

<sup>14</sup> Tuition fees account for about 5 to 8% of the budget of public institutions.



modest tuition fee, while they pay full tuition fees in the private sector. For this reason there have been several initiatives to create public subsidies for the private sector<sup>15</sup>.

It is true that the State's contribution to the budget of private institutions has in general been small. However, it has tended to increase over the years, despite some occasional ups and downs that depend on the will and convictions of the Minister of Education and the Government. For instance, under Minister Roberto Carneiro the Catholic University was given 5 MECUs in scholarships from 1986 to 1991, while a special finance fund was established for other private institutions (2 MECUs in 1990) and 14 MECUs were made available for infrastructures. More recently the funds available for scholarships for private sector students have seen a substantial yearly increase. Finally, it remains to be seen whether the recent decision of the Ministry of Education<sup>16</sup> to fund some of the Catholic University's activities is an isolated action or rather the beginning of a rescuing operation of the private sector.

#### **4. Results of the expansion of the private sector and its problems**

We will now analyse how the private sector has operationalised its expansion in terms of enrollment, its composition by field of studies, and its regional distribution.

##### *4.1. Growth in terms of enrollment*

The growth of private higher education in Portugal has been very fast, if not to say explosive, after the policy changes introduced by Roberto Carneiro. Between 1987 and 1991 there was an increase of 40% of the number of students in the public sector, against a 250% increase in the private sector (see Fig. 2). In 1983/84 the enrollment had the following distribution: public universities: 76%; public polytechnics: 12.6%; private universities: 7.9%; private polytechnics: 3.3%. In 1989/90 the values were, respectively: 63.5%; 15.0%; 10.5% and 11.0%; and in 1996/97 the values were, respectively: 46.7%; 18.6%; 15.0%; 19.7%.

##### *4.2. Regional and scientific concentration*

The reality has proved to be quite different from the forecasts of Sousa Franco. Indeed, the private sector has given a small contribution to diversity, as 60% of the private sector (including the Catholic University) students are concentrated in

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<sup>15</sup> See § 1, article 74 of the Portuguese Constitution — equality of opportunities, and compare it with § 1 of article 75.

<sup>16</sup> The Ministry of Education has decided to pay the difference between private and public tuition fees for all students enrolled in the Catholic University at Viseu, a town where there is no public university.

the areas of Social Sciences, Management, and Law, compared with only 25% for the public sector. It is a fact that the private sector has mainly developed areas of low investment and of low running costs, and offers study programmes mainly in areas that were already saturated in the labour market.

In addition, the private sector has not solved the problem of unbalanced regional distribution of higher education institutions. Indeed, more than 95% of private higher education is concentrated in just two regions of Portugal (North Littoral, and Lisbon and the Tagus Valley) with more than 80% concentrated in the two main cities, Porto and Lisbon. For the public sector the same percentages are respectively 68% and 49%. This means that the public sector has a less heterogeneous regional distribution, with an important presence in the Centre Region. Within each region public institutions have a less concentrated distribution. These data prove that the private sector has not allowed for a more equitable distribution of higher education. On the contrary, private institutions have concentrated in the more developed areas, abandoning the regions of the interior or of less dense population.

#### 4.3. *Scepticism in quality issues*

In principle, the development of private higher education institutions should not be frowned upon, provided that they offer a reasonable standard of quality. However, the expansion of the private sector has been so rapid that one wonders about its quality standards. Unfortunately, it has become common knowledge that

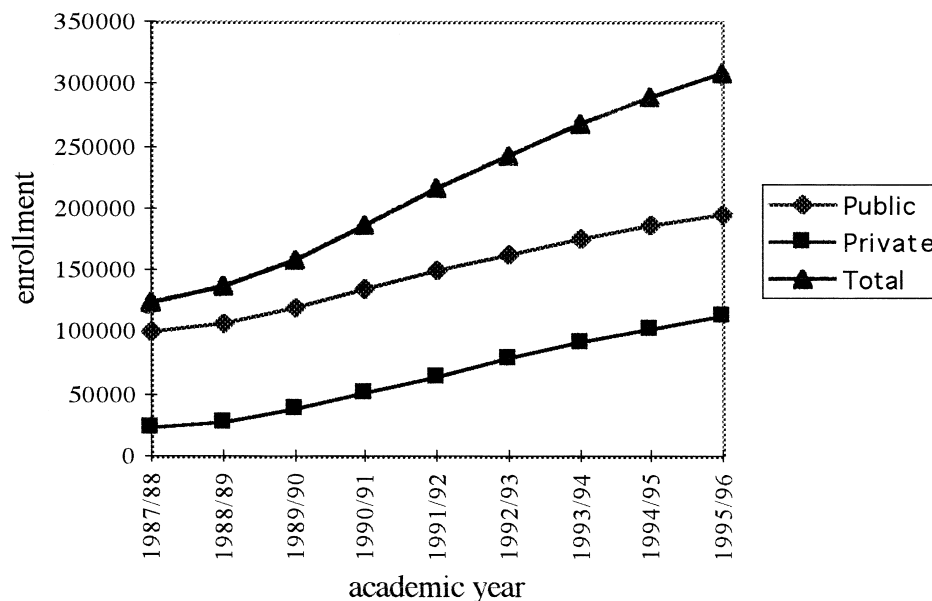


Fig. 2. The enrollment of students in public and private institutions.

in general most private institutions are of rather low quality. In most cases they are little more than secondary schools of higher level, without a permanent and well qualified academic staff. Their contribution to research is negligible.

It is no wonder that private institutions have difficulty in attracting students when confronted with competition from the public sector, as there is no way of the private sector compensating for its higher costs, for instance, by offering better quality of education or unique study programmes in relevant areas. Now that the problem of quantity has been solved this view is even shared by the Government as can be demonstrated by a recent document of APESP<sup>17</sup> to the Minister of Education:

(...)“How is it possible, under these conditions of instability, insecurity and lack of future prospects, that private institutions will consolidate their educational projects? How is it possible to give credibility to the system if the Government systematically makes public new decisions capable of developing in the public opinion a generalised feeling of mistrust on the private higher education subsystem?”

## 5. Problems of the strategy of the private sector

The problems suggested by the expansion of the private sector will now be explored, vis-à-vis the behaviour of the students. In fact, the preferences evidenced by the students as well as the number of potential students makes those problems worse, in a situation in which the number of total (public and private sector) vacancies clearly exceeds the number of candidates.

### 5.1. Preferences of the students

It is important to analyse the preferences of the students while taking into account some structural divisions (university/polytechnic, public/private), as well as the perspective of the institution and the study programmes. This analysis has been made by Cnases/Ceos<sup>18</sup> in 1997. Their report will be the source of our comments.

The report demonstrates that student satisfaction regarding the institution and the study programme is clearly higher among public university students. For the

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<sup>17</sup> APESP is an association of presidents of co-operative societies and owners of private higher education institutions.

<sup>18</sup> Cnases/Ceos (1977), “*O perfil sócio-económico dos estudantes do ensino superior*”, Cnases, Lisbon. This is a very important and detailed report on the characterisation of the socio-economics profile of the Portuguese higher education students of all sectors of the higher education system, using a very large sample of 6000 students.

private sector there is a large percentage of students who, although satisfied with the study programme, is not satisfied with the institution. This result might indicate that these students only have chosen a private institution because their marks have not allowed them to enter a public institution. In the case of public polytechnics there is a significant percentage of students who is neither satisfied with the study programme nor with the institution. Similar results can be observed for private polytechnics. This means that polytechnics are assumed as a second choice, both in terms of institution as well as in terms of study programmes.

The degree of satisfaction is better understood by an analysis of the preference of the students' first option<sup>19</sup>. Public universities are clearly shown as the prime choice of students, followed at large distance by public polytechnics which present a slight advantage over private institutions. The analysis of the institutions' attraction capacity (and of sub-systems) must also take into account the students' motivations. The answers to the Cnases/Ceos questionnaires by students who were placed in the sub-system which coincides with their application's first option demonstrate that proximity to the area of residence is the most important factor for students registered in the private and polytechnic sectors. However, it is only the third factor for students who have selected a public university. For the latter students the most important factors are the quality and prestige of the study programme and of the institution. These factors are also important for students who have given priority to a private university (second and third factors after geographical proximity), but to a lesser extent than for students of public universities. Public polytechnics' students have also listed as significant factors the lower entrance marks and the lower costs.

However, an interpretation of student mobility is quite complex as is demonstrated by the Cnases/Ceos report's analysis of the socio-geographical origin of the student population. For the private sector it is reasonable to forecast a very high degree of regional homogeneity, as it is very unlikely that families will add the costs of displacement to the already very high costs of the private sector's tuition fees. Indeed this is confirmed in the report as the degree of regional homogeneity of the private sector exceeds 85%, being 91% in the Littoral North Region, 95% in the Interior North and Centre Regions and 88% in the Lisbon and Tagus Valley Region.

As for the public sector, the two great centres (Littoral North, and Lisbon and Tagus Valley) present a large regional homogeneity when compared to other regions (80% for the first region and 85% for the second). This is the result of two interdependent phenomena: on the one hand the students from the Interior (North and Centre), the Centre and the South Regions are more mobile, probably

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<sup>19</sup> Students apply for entrance into higher education by means of a national competition. In their application form they can make six choices of pair (study programme/institution) by order of preference. They are placed according to their marks.

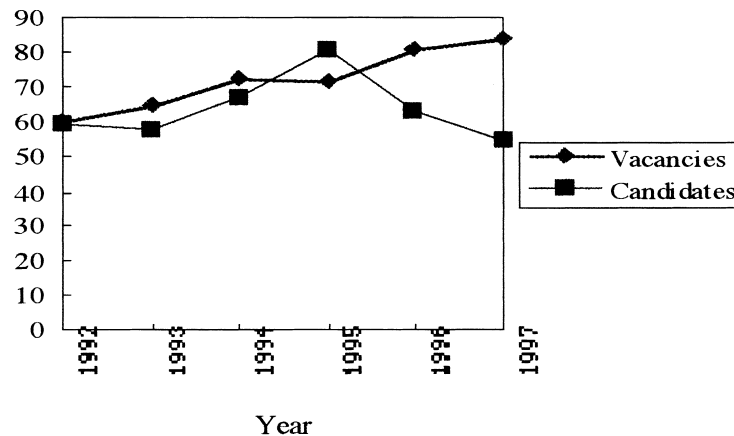


Fig. 3. The number of total vacancies (public + private) and the number of candidates.

because of an incomplete offer of study programmes in their region of residence<sup>20</sup>. On the other hand, the students from the Littoral North, and Lisbon and Tagus Valley, because of their large number, exceed the regional offer capacity and try to find places in public institutions from other regions. Nonetheless, these students try to maintain some relation of proximity to their residence.

### 5.2. Evolution of the number of students

Policies aimed at increasing the overall participation rate in higher education, were the product of the massive increase in demand rather than being institution or government driven<sup>21</sup>. It was a *quasi-market* response to the growth of demand. It is interesting to note that nowadays the government is more concerned with quality than with quantity. For this reason in secondary education national final examinations with minimum passmarks were introduced again in 1996, resulting in a sharp decrease in the number of candidates to higher education, consequently shrinking the market for private institutions (see Figs. 1 and 3). Fig. 3 shows that the total number of vacancies (public and private) has become larger than the number of candidates, while Fig. 1 shows that the total number of vacancies offered by the public sector is approaching the total number of candidates, creating large recruitment difficulties for the private sector.

This becomes even more evident from the analysis of Tables 1 and 2. Table 1 presents the number of new students entering public and private institutions, as

<sup>20</sup> A recent case study using the Polytechnic of Bragança (Interior North) has found out that students from the Region look for places near the Littoral, even if they have a similar local offer, probably because they prefer to move to a more developed region, with a larger social and cultural attraction.

<sup>21</sup> However, we must remember that the lowering of entrance requirements decided by the Minister of Education was responsible for an artificial increase of demand.

Table 1

Number of new students in public and private institutions and in the Catholic University

	1995/96	1996/97	1997/98	$\Delta$ (95 to 97)
Private	28475	25468	19766	–31.3%
Public	38034	41527	45427	+ 19.4%
Catholic University	1982	2081	1841	–7%

Table 2

Vacancies and new students in private universities (1997/98)

Private university	Vacancies	New students
Universidade Atlântica	350	106
U. Autónoma de Lisboa (UAL)	1866	1207
UAL — Caldas da Rainha	250	56
U. Fernando Pessoa	1122	380
Universidade Independente	1376	522
Universidade Internacional	960	211
U. Internacional — Figueira da Foz	300	129
Universidade Lusiada	2484	1523
Universidade Lusiada — Porto	2290	856
Universidade Lusiada — Famalicão	827	260
Universidade Moderna	2888	1116
Universidade Portucalense	1128	569

well as the Catholic University. From academic year 1995/96 to academic year 1997/98 the number of new students entering private institutions has decreased by 31.3% while it has increased by 19.4% in public institutions. So there is a combined effect of a decrease of the total number of candidates, with an increase of new places offered by the public sector.

Table 2 compares the number of vacancies offered by private universities against the enrollments of new students, showing that many places are now left without candidates. As a result, private institutions are entering a difficult fight for economic survival. This effect is even more visible when the polytechnic sub-system is analysed.

### 5.3. *More difficulties in the future*

A prospective analysis of the number of students in secondary education (Amaral and Teixeira, 1999) demonstrates that the decrease in the number of candidates will go on for at least another ten years, as a result of a decrease in the birth rate in the last two decades. This creates a crisis in the private sector that can result in the collapse of many private institutions.

This prospective analysis was based on a report published by the Ministry of

Table 3

Number of secondary education students per academic year. Day students — all schools (public, private and co-operative)

Academic year	Observed numbers		Estimated values	
	[1991/92]	[1995/96]	[2000/01]	[2005/06]
1	120 077	110 573	102 223	100 537
2	185 829	129 622	124 053	116 604
3	135 923	120 758	116 736	108 585
4	171 749	136 374	126 541	116 788
5	166 445	145 061	119 747	111 043
6	160 451	140 666	120 468	114 139
7	158 604	144 482	125 014	122 410
8	139 848	133 244	122 327	120 937
9	121 304	124 750	123 459	120 034
10	108 949	137 621	120 414	111 745
11	91 735	86 469	91 403	96 655
12	100 620	122 532	94 301	89 975

Education (DSAP/DAPP, 1998)<sup>22</sup>. The results for Continental Portugal (excluding Madeira and Azores) are given in Table 3 and Fig. 4 and show that between academic years 1995/96 and 2005/06 there will be a significant decrease (minus 32,600 students, corresponding to 26.6%) in the number of students in the 12th class.

A regional analysis is also relevant because the decrease of students and the offer of higher education are not geographically homogeneous. While in the North Region the number of students will remain almost constant, there will be a large decrease in the Lisbon and Tagus Valley Region (43%) with smaller decreases in all the other regions (22.8% in the Centre Region, 28.2% in Alentejo and 30.2% in Algarve).

These results show that over the next decade there will be a sustained decrease in the number of candidates to higher education. As the public sector has been expanding its offer it is obvious that private institutions will be under very strong pressure. To make things worse, private institutions show a very strong degree of regional homogeneity. Their students are being recruited almost only locally, with their highest concentration around Lisbon, this being the area where the decrease of students will reach its peak.

This forecast is confirmed in the statistics of the Portuguese population<sup>23</sup> that indicate that the number of youngsters in the age range 20–24 years will decrease from 841,350 in 1995 to 641,690 in 2005 (and 556,607 in 2010). This corresponds

<sup>22</sup> Direcção de Serviços de Avaliação e Prospectiva (DSAP), Departamento de Avaliação Prospectiva e Planeamento (DAPP), Ministério da Educação.

<sup>23</sup> Source: Statistics of INE (National Institute of Statistics) — Gabinete de Estudos/Área Demográfica e Social.

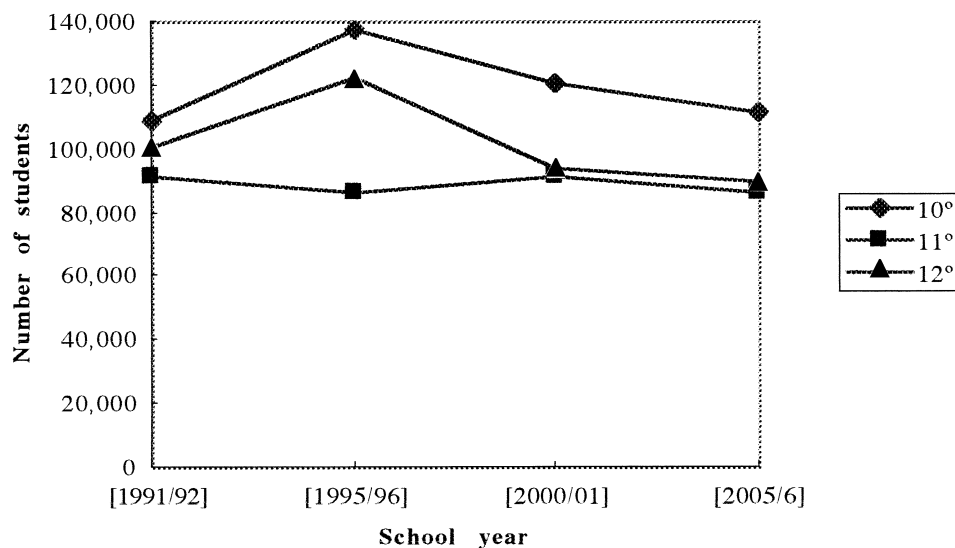


Fig. 4. Number of students (1991/92 to 2005/06), academic years 10th, 11th, 12th.

to a 23.8% decrease (see Table 4), being not far from the forecast about the decrease of the number of students at the end of secondary education.

Indeed, this development was to be expected also from the perspective of the evolution of the pupil population at primary schools all over the country. Several hundred primary schools have been closed down over the last years because of a lack of pupils. However, there was an accepted belief that because of the increase of obligatory education from six to nine years, the unfavourable demographic effect would be more or less neutralised by an increase in the participation rate of young people. This will only be the case in the North Region, where the participation rate was below the national average. In all the other regions, and mainly in the Lisbon and Tagus Valley Region, where the participation rate was already high, this compensation effect will not be observed.

All this has produced a very negative effect on private higher education institutions, faced with very bleak prospects. Caught in their own game of political lobbying for uncontrolled creation of new private institutions and the approval of new study programmes, private institutions have started to blame the government for not having resisted those pressures and for allowing the continuous development of the public sector. In a recent document addressed to the Minister of Education by APESP<sup>24</sup> it is claimed that:

“.....Instead of a clear policy for this sector aiming at an adequate

<sup>24</sup> See footnote 19.



Table 4  
Forecasts of the Portuguese population — INE

Age groups	1995	2000	2005	2010
0–4	555 730	581 472	581 041	577 188
5–9	543 660	555 873	585 853	589 050
10–14	645 210	545 310	561 331	594 752
15–19	778 470	640 121	547 944	568 852
20–24	841 350	768 785	641 690	556 607
25–29	763 820	833 904	770 953	651 075
30–34	725 300	759 951	836 024	778 883
35–39	691 580	723 933	762 487	842 375
40–44	656 650	692 245	726 232	767 873
45–49	626 950	655 327	691 359	727 598
50–54	558 640	620 962	649 475	687 038
55–59	542 150	547 907	608 602	638 432
60–64	534 700	521 351	527 810	587 903
65–69	491 140	497 093	485 750	493 572
70–74	409 360	432 371	440 938	434 081
75–79	273 720	326 590	349 116	359 681
80–84	179 100	183 246	222 666	243 402
> 84	103 230	111 733	118 473	139 685
Total	9 920 760	9 998 174	10 107 744	10 238 047

equilibrium of public and non public higher education we are witnessing a sustained approval of more study programmes and a continuous increase of vacancies offered by the public network, in areas of competition against private education, without any regard for already existent projects and placing in danger the viability of those institutions.....”

In the same document arguments are put forward against the State, seen as a new Judas:

“...In all sectors of social life the State needs to be called to act in those areas where an adequate answer from the civil society has not been provided, but mechanisms have to be put into place to limit the public intervention to a compatible minimum.

In education, and above all in higher education, everything has been the other way around. There was a first phase when civil society was invited to act where the State had proved to be incapable of acting. There is now a second phase where the State methodically is trying to remove civil society from education. We do not believe this to be the right decision”.

Future developments of the Portuguese higher education system will be very much influenced by this problem and by the establishment of “market-like” competition for students. In this game private institutions have everything to lose:

they are more expensive, their recruitment is very local and their social prestige is not very strong. It will be very interesting to observe the developments of this crisis: either the disruption of the private sector or the intervention of the visible hand of the State (against the invisible hand of the market)<sup>25</sup>.

## 6. Concluding remarks

In the introduction, several ingredients for implementing a market system in higher education have been discussed. These include a prominent role for private sector initiatives, an increase in the degree of competition, and strengthening of institutional autonomy.

The political trends with respect to the Portuguese higher education system have displayed moves in all three directions. There has been an increase in the role of the private sector, which has developed from an almost insignificant level to enrolling about one third of the total number of students. There has also been an important strengthening of the autonomy of public institutions, while some signs of increased competition between higher education institutions, i.e. concerning undergraduate students, have become evident.

However, if altogether these moves suggest a trend towards a more market-like type of interaction, it does not challenge the fundamental situation that the State clearly remains the main regulator of the system. Moreover, the State does not seem to be intending to step down from this task. Thus, we have what can appropriately be called a government-regulated system of higher education with some emerging market-like characteristics.

It must be realised that the introduction of market-type mechanisms in a state dominated steering and regulation model does not represent an attitude of omission from the State. This introduction is part of a very clear trend in many countries. According to David Dill (1997b) “(…) *while the superiority of these instruments (market mechanisms) to traditional forms of government regulation are yet to be clearly demonstrated, the adoption of these new types of market policies will likely have significant impact upon academic systems.*”

Some of the problems raised by this recent evolution are due to a paradoxical situation in Portugal in which the government has the power and the instruments to regulate the system, but frequently abstains from using them. Indeed, the Portuguese society can be considered rather soft, gentle and permissive. Conflicts seldom lead to violent action, harsh measures very seldom are enforced to the very end, and a lot of sympathy is frequently developed towards the weak and the fallen. It is also true that there are many laws of strong regulatory character, but they are not always taken very seriously. For the same reason the State has clear

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<sup>25</sup> It remains to be seen if the recent decision of the Minister of Education to fund some of the Catholic University's activities is an isolated action or instead the beginning of a rescuing operation of the private sector.

difficulties in enforcing any credible system of “a posteriori” control, and in general prefers to resort to “a priori” close scrutiny of proposals submitted to the approval of the Ministry of Education.

If the level of autonomy of public universities has increased significantly during the last years, they still face some constraints, especially regarding investments and the lack of a medium term stable framework. However, public polytechnics and private institutions face a worse situation in general. The former, although having improved their situation, still have a lower degree of autonomy than public universities. The latter face a quite awkward situation, with a far less autonomous framework than their public counterparts. It seems that the government promotes their existence but mistrusts them altogether. For instance, while public universities enjoy full pedagogic autonomy, neither public polytechnics nor private institutions are allowed to create, suspend or cancel study programmes autonomously. They must submit these proposals to the approval of the Ministry of Education. It is no wonder that private institutions react strongly against this situation as is demonstrated in a recent document addressed by APESP to the Minister of Education<sup>26</sup>:

“(...) the State has been exceeding the limits of its right of surveillance conferred by the Constitution by exercising over private institutions a direct and suffocating tutelage thus completely eliminating their scientific and pedagogical autonomy, obstructing the institutional development and creating large difficulties to the implementation of new projects (...).

(...) The lack of autonomy of private higher education institutions, namely regarding the creation and modification of study programmes, creates great institutional instability. Besides being object of unfair treatment relative to public institutions they also have to put up with systematic delays in the analysis of their projects, which take indefinite periods of time without any decision from the Ministry (...).”

In practice, however, private institutions (or at least some of them) have a strong lobbying capacity. Quite frequently it can be observed that many politicians (actual and former members of Government and members of Parliament) have direct or vested interests in private institutions which have been able to get official recognition without a severe scrutiny of the legal demands or the quality of teaching. It is true that the national practice of avoiding conflicts and taking harsh decisions has many times resulted in late approval of proposals<sup>27</sup>.

Indeed it is no surprise to see that sometimes the Ministry, instead of answering

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<sup>26</sup> See footnote 19.

<sup>27</sup> There is a traditional Portuguese saying: Soft water on hard goes on dripping until it passes through, or constant dripping wears the stone. It is also famous an inscription in an office at the Ministry of Education: “Dura lex sed pyrex” with its translation “The law is hard but can be broken”.

the demands of private institutions with a clear yes or no, has decided to ignore all legal deadlines by choosing not to answer at all. It is not surprising to observe that many private institutions have illegally initiated study programmes without the necessary governmental permission, being later absolved of any sin by retroactive governmental decisions that legalise the situation when problems might become serious<sup>28</sup>.

Expansion of higher education, diversification, as well as the increase of student enrollment in fields that were of economic importance, have been explicit government policy goals for more than a decade. However, these policy goals have not been fully attained, both because of the mushrooming of the private sector in directions contrary to the aims of the diversification policy (geographical distortions and insufficient supply of technical degrees), and because of academic drift behaviour of the polytechnics. Only the peculiar characteristics of the Portuguese society can explain why it was possible that expansion and diversification took place in a direction opposite to explicit government policy goals, when in principle polytechnics and the private sector had to submit their study programme proposals to the approval of the Ministry of Education.

The type of competition evidenced by the higher education sector also deserves some remarks. It is clear that the competition develops in segmented markets and products. On the one hand, there are the main public institutions (in general those universities centrally located in large urban and economic areas) and the oldest non-public university (the Portuguese Catholic University), which has fairly escaped from being assimilated into the private sector. On the other hand, there are the more peripheral public universities, the large majority of the polytechnics and the bulk of the private institutions. If in the first group there is a wider competition for the best students, for research funds, and even for the academic staff, the second group seldom plays any active role in those matters. At best they represent a passive role in the competition, i.e. they become the second choice for most students.

This competition pattern can be understood in terms of the following important characteristics. First, there is a clear price-differential between fees in public and private institutions that avoids any serious menace for the main public institutions. Second, there is an information problem, particularly obvious as far as private institutions are concerned, with a general absence of information regarding quality assessment. Therefore, the typical reaction on the demand side will be to interpret this absence as a bad sign, like something is being hidden. Third, we are not really dealing with a homogeneous sector, since most private institutions and several public ones are almost exclusively devoted to teaching activities, which makes them quite different from those institutions clearly engaged in research activities. Students' options probably reflect that difference also.

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<sup>28</sup> Quite recently the President of the Republic faced with still one more of these retroactive decrees has refused its promulgation without the approval of a decree clearly establishing that illegal higher education institutions would be closed down, if necessary with the help of police.

Finally, there is the issue of geographical distance. This aspect sometimes balances the price-differential between public and private institutions<sup>29</sup>. That is why competition for undergraduate students is frequently between private institutions and public peripheral universities. Moreover, this competition is stronger in the case of the university sub-system, since the polytechnic has a more geographically disperse structure.

The failure to create a serious rival to public institutions should be blamed both on the State, and on the short-term perspective of most private initiatives of higher education. These were not, in general, sound academic and financial projects, but rather short-term profit-making attempts. This is confirmed by the type of courses provided, by the extremely fast expansion of most of these institutions, by the near absence of any research activities, by the reliance on the moonlighting of the staff of public institutions for teaching, and by the lack of enthusiasm towards quality assessment issues. Altogether, if it has provided a good business to some, it has compromised the future credibility of an important part of the system. If the development of a true competitive system is to be attained, then it is necessary that most private institutions change the behaviour they have adopted so far.

The State, however, also has important responsibilities in the present crisis. It has promoted the uncontrolled expansion of the private sector, through several signs of negligence and lack of rigour in law enforcement, thus giving way to a private sector “*veni, vedi, vici*” approach. Moreover, we have to recall that the State has kept the main regulation of the system on its own hands, and that many decisions of private institutions have to obtain the government’s approval. These omissions in the use of the regulation mechanisms have created serious and disturbing consequences in shaping the current situation. It is no wonder that private institutions have been encouraged to develop without any effective state control neither over the offer of study programmes nor over quality, in the illusion that there was an ever-growing market for higher education.

It is important that these recent developments will be used for improving the system. It is important to make the private sector more credible, by readjusting its size. Some institutions will have to reduce their present dimension, others may even have to close. It is also important to make private institutions more responsible, by giving them more autonomy, but at the same time by making them more transparent, and by enforcing some of the legal regulations that in the past frequently have not been used.

The recent experience in Portuguese higher education shows that the introduction of market mechanisms is a complex and learning process that cannot be expected to produce effective regulation instantly, and that should not be played by wizard’s apprentices. Moreover, in a case like the Portuguese one, where those mechanisms only play a secondary role in the regulation of the

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<sup>29</sup> When there is no local public institution it can be less expensive to enrol in a local private institution than to move to a different town where public education is available.

system, there is a regulatory role of the State that the government should not forsake. Only an effective and active regulation of the State, clarifying and endorsing the rules of the system, can make it possible to take complete advantage of the benefits of the introduction of market-like mechanisms. Any other position of the State will drive the higher education system to a complicated course.

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