The quasi-markets in higher education: from the improbable perfectly competitive markets to the unavoidable State regulation

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Abstract

In the last two decades multilateral international organisms and the governments of several countries have stimulated reforms in higher education that fostered, fundamentally, the expansion of private school systems, the reduction of public financing, the charging of school fees, and the competition in the provision of educational services. As a consequence, it has been observed a phenomenon of commercialization, in which the development of the ends and means of higher education, both in state and in the private realms, is redirected in accordance to the principles and logic of the market, and under which education gradually loses its status as a public good, and acquires the position of a commercial service. The present article focuses on the emergence of the market logic and mechanisms in the context on higher education, based on important economic concepts, such as those of competitive market, free market, state intervention, quasi-markets and market failure. The occurrences of competition imperfections are described and analyzed, namely, the market failures generally present in the context of higher education: public goods, positive externalities, powers of monopoly, and asymmetrical information. The text concludes that the regulation of national States is indispensable and that, consequently, the establishment of perfectly competitive markets within the sphere of higher education is very unlikely.

Keywords

Higher education – Markets in higher education – Quasi-market.

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Introduction

Competition in the context of universities is not new. There have long been fierce struggles for places between students, for scholarships between graduate students, and for academic and scientific honors between professors and between institutions. During the last two decades, however, a new kind of struggle has emerged within the context of higher education: the market competition for educational services. The genesis of this competition is linked to the guidelines of international bodies for national states which, under the justification of maximizing the social benefits of education systems, have implemented educational reforms based on market commercial services logics, questioning in a novel way the very conception of higher education as a public good.

Adam Smith in the 18th century was one of the first authors to touch upon the question of the public or private nature of higher education. In his The Wealth of Nations from 1776, the author discusses which functions education in general should play, which is the best way to guarantee them, either with partial or total funding from the State, and the objectives of the utility, efficiency, and efficacy of the educative enterprise. Already at that time, the author pointed in the direction of prioritizing the public funding to basic education, and defended the idea that education should be paid for by the family, even if at a reduced cost, and that the teacher should be paid only in part by the public authorities, since if they were to be fully paid by them, they would “quickly learn to neglect their activity” (SMITH, 1983, p. 421).

Approximately 200 years later, in the document entitled Financing education in developing countries: an exploration of policy options, the World Bank also defended the thesis that the investments in basic education have higher social and individual return than the in investments in higher education (WORLD BANK, 1986). The document published in 1986 was important in definition of new policies and reforms of higher education in developed countries and, above all, in developing nations. Since that moment, several countries began to cut down on public investment, to diversify their sources of funding (and of free education or expansion of the charging of fees), and to encourage the growth of private institutions in higher education. Such policies brought about the phenomenon of commercialization, in which the development of the means and ends of higher education, both at the State and private spheres, takes a new turn according to the principles and logics of the market, and under which education gradually and progressively loses the condition of being a public good and assumes the features of a commercial service (BERTOLIN, 2007).

Indeed, several authors have signaled to the recent emergence of national contexts in which, despite the still remaining State supervision, the mechanisms and aspects of the regulation and competition of markets are to be found in higher education (LEITE, 2003; SANTOS, 2004; SANTIAGO; MAGALHÃES; CARVALHO, 2005). To authors such as Pedro Teixeira, Ben Jongbloed, David Dill and Alberto Amaral, “competitive markets have long been a feature of higher education”(TEIXEIRA et al., 2004, p. 327). Thus,

> what distinguishes the current debate about markets in higher education therefore is not the emergence in academic life of a new form of social organisation, but the active experimentation with market-oriented policies by states intent on maximising the social benefits of national higher education systems. (p. 327)

Generally speaking, the arguments and justifications for the commercialization of higher education are related to the liberal tenets that the competition created by the market would lead to higher productivity and efficiency of the systems, with consequent improvement in the quality and equity of the provision of educational services by the institutions. Additionally, arguments of a fiscal nature have also been used in regard to the destination of the limited State budgets, since higher education would not stand as a strong competitor against more pressing social needs, such as health and social security services.

According to Fernanda Correia, Alberto Magalhães and António Magalhães (2000), in the last decades the development of higher education ceased to be associated to the modernization spearheaded by the public sector, and became linked to the private sector, for governments are

> substituting market mechanisms for the traditional forms of regulation as instruments of public policy, trying to encourage the competition between the institutions in the search for more efficient, and certainly more economical, solutions. (p. 37)

It can, therefore, be said that the emergence of market competition in higher education is a worldwide phenomenon that acquired greater importance in the last two decades.

What are, then, the characteristics of market competition that have arisen in higher education? Would they be free markets with no regulation by the national States? Do these markets present failures or would they be perfectly competitive, thereby extending the benefits of the systems? With the purpose of contributing with answers to such questions, the present article deals with and analyzes the appearance of market mechanisms in higher education systems based on economic concepts such as those of perfectly competitive markets, quasi-markets, and market failures. By considering the specificities of higher education, the analysis carried out here seeks to demonstrate the limits of competition and market forces and, also, the necessary and indispensible regulation by national States onto the systems of higher education.

The (quasi)market competition in the context of higher education

The economic ideas that free commerce is the way to prosperity and progress of societies have their origin in texts of the 18th and early 19th centuries, such as those by Adam Smith, and his invisible hand of the market, and by David Ricardo – the herald of free and unlimited market. According to the line of economic thought of these authors, known as classical economics, the exchanges of goods and services comparable on the basis of a price – the markets – should occur freely, without intervention or regulation by the State – the free markets – so that, in so being, there exists a self-regulation between the offer and the demand that makes it possible to achieve the optimum amount of production and the maximization of social benefits.

Among other aspects, classical economics postulated (i) the perfect competition in all markets; (ii) that the State should not intervene in the working of markets, since the economic agents[1] in their individual actions are guided, as if by an invisible hand, towards the equilibrium and efficiency – the *laissez faire*[2]; (iii) that tax and monetary policies, and subsidies hindered the working of markets; (iv) that prices being flexible upwards as well as downwards, here including salaries, allowed all markets to keep their equilibrium. By the end of the 19th century and beginning of the 20th century the neoclassic school emerged which, despite criticizing the concepts and methods

1- Economic agents are all those who intervene in economic activity, such as businesses, families, State, financial institutions etc.

2- Laissez faire is a French expression that means let it do, let it go, let it pass, referring to a complete freedom in economy: free market, free manufacture, little or no taxation, free labor market, and minimum intervention by governments.

of classical economics, also influenced the so-called *neoliberalism*, a movement opposed to the interventionist ideas of the Keynesian policies. In the last decades of the 20th century, neoliberalism began to signify the economic doctrine that defends the absolute freedom of the market, the full restriction to State intervention in the economy, and the basis for the so-called Washington Consensus[3].

Therefore, the recent emergence of the logic of market in higher education has historical roots and modern justifications that go from the works and ideas of Adam Smith to the more recent neoliberal theories by authors such as Friedrich von Hayek and Milton Friedman. The main multilateral international organisms, such as the World Bank and the International Monetary Fund (IMF), strengthened by the action of the World Trade Organization (WTO), have fostered the development of policies grounded in the expansion of free markets, including those at the global scale, which have spread to the most diverse areas, including those more sensitive for the development and growth of countries and societies, such as education. The worldwide numbers related to expenses with education have grown to over two trillion US dollars (more than double the world car market), and the characteristics of being a giant, fragmented, little productive market with a huge deficit in professional management, low technological level, and low capitalization rate, similar to those of the field of health in the 1970s, have made education, notably the higher education, into an attractive area of great potential to "a capital eager for new areas of valuation" (SANTOS, 2004, p. 27) and investments.

Notwithstanding the postulation of a free market by the classical and neoclassical schools, by neoliberalism and international organisms, important authors have defended that societies in which markets are truly free, in which the exchanges of goods and services take place without any form of interference by the State, are rare (GRAY, 1998) and unfair (STIGLITZ, 2002). If not always, at least most of the times the supposed social benefits of the markets cannot be actually achieved without a basic institutional structure from legislation that establishes limits to the commercial transactions. According to Teixeira et al. (2004), the only truly free markets, in the sense of not being regulated by the governments, are the illegal markets; however, even these markets, which by definition operate outside the law, must be object of attention by the governments.

Markets in different segments or sectors of the economy may require greater or smaller degrees of intervention, regulation or supervision by the State. A perfectly competitive market, for example, is a market in which there are a large number of buyers and sellers who can freely come in and out of it (TEIXEIRA et al., 2004), that is, State regulation is minimal and can be restricted to vigilance and to occasional legal issues. It is also assumed that in a perfectly competitive market there is complete information, and the costs of searching for it are negligible, and that the product or service is reasonably homogeneous and divisible. On the other hand, and in the other extreme, there are contexts of offer of goods and services that are monopolies of the State, that is, governments not only regulate or supervise, but intervene as suppliers.

At an intermediate point between perfectly competitive markets and State monopolies there is the so-called quasi-market. The term quasi-market has been used to designate contexts in which, despite the existence of government funding and regulations, some market mechanisms are also present; in other words, the term can be employed in those situations in which decisions related to the offer and demand are coordinated

3- A recipe book promulgated by the IMF and World Bank initially to help Latin American countries to adjust their economies via tax discipline, tax reform, commercial openness, privatization of state companies, exchange rates and market interests, among other measures.

by market mechanism, but in which only some of the fundamental ingredients of a market are introduced. Health and education, sectors of large concern for governments, are two of the sectors in which contexts have emerged more often such that the concept of quasi-market can be applied.

The notion of a quasi-market has its origin in the proposal by Milton Friedman – a well-known defender of free markets – that generalized voucher mechanisms would allow all families, including those economically and socially deprived, to choose the school that would better adjust to their values and to the needs of their children (VANDERBERGHE, 2002). Within basic education, for instance, since the mid 1950s, the Belgian system works in a way similar to what is called a quasi-market. In the last decades, an important quasi-market trend called the school choice has also emerged. Such system aims to offer free choice of schools to pupils' parents, offering subsidies and stimulating competition between public schools.

Currently, the concept of a quasi-market in education is wider. According to Vincent Vanderberghe (2002), the quasi-market can be understood as a subtle combination of the principle of public funding – followed by State controls – with the perspective of market and competition in education. In this sense, both governments and users are in a condition of exercising some degree of control over the institutions. A situation of quasi-market can also be recognized when competition is established between providers from within the State monopoly for the decentralization of the demand and supply. Thus, competitiveness is introduced within the suppliers, which are not necessarily private, nor do they necessarily seek to maximize profits, and choice is then offered to the pupils related to which institution they are going to study at.

Specifically within the sphere of higher education, some studies about the systems of various countries reveal a sharp heterogeneity of forms and degrees of intervention and regulation by the States onto institutions and services (NARODOWSKI, 2002; DILL et al., 2004). Whilst some goods and services are organized as State monopolies, such as research funding, others in the same institution are produced in contexts similar to those of competitive markets, such as consulting jobs. This variability in the form of regulation between countries, as well as in the degree of competition and measure of subsidies to services, results in different levels of insertion of market mechanisms in the sector.

Apart from that, and from the economic understanding that a market presupposes "the free exchange of goods and services, comparable to each other, based on a value – the price" (DILL et al., 2004, p. 329) it can be said that, in theory, there should exist not a single market or higher education, but several, since not all products and services developed at this level of education are comparable to each other. In this perspective, the competition between institutions to supply teaching of undergraduate courses is just one among many possible markets in higher education.

Thus, within the field of higher education, there may be found different market situations going from systems of State monopoly to contexts similar to those of competitive markets. However, due to the undergoing process of commercialization at a worldwide scale, in which State regulation is still present and the mechanisms of market regulation are being partially and gradually introduced, the contexts of offer of education services in higher education can be better defined as those of quasi-markets, and not as perfectly competitive markets.

The failures of quasi-markets in higher education

In spite of the presence of a state dimension, situations of quasi-market keep the underlying reality of the economic power, and can suffer from inefficiencies characteristics of a context of competitive markets, such as the market failures (TEIXEIRA et al., 2004). According to the theory of supply and demand, it is through free competition that the optimal amount to be produced in a given society is determined; price is fixed when a perfect balance is reached between supply and demand. However, in order that the market forces and their invisible hand may act, it is necessary that conditions of perfect competition prevail; when one of the conditions for perfect competition is absent occurs what is called a market failure. According to economic theories, the intensity of these failures will define a greater or smaller need for State intervention in economy with the objective of maximizing welfare in society. In general, governments act, on the demand side, subsidizing income for certain groups (retired, handicapped, and unemployed people etc), and, on the supply side, through subsidies to producers.

Within the sphere of higher education, when market mechanisms are present, four situations may occur that will affect competition, that is to say, four kinds of imperfections can be seen to give rise to market failures: public goods, positive externalities, monopoly power, and asymmetric information.

• *Public goods*: goods that are characterized not by rivalry and exclusion are considered as public goods, meaning that the consumption of a unit of the good does not diminish its quantity to other individuals, and that the supply of this good is not restricted to any group of individuals but is directed to society as a whole. In the document The financing and management of higher education: a status report on worldwide reforms from 1998, the World Bank espoused the thesis that higher education is a private good rather than a public one (JOHNSTONE, 1998). By stating that higher education exhibits many of the features identified by Nicholas Barr as characteristic of a private good – it has the condition of competitiveness (limited supply), of exclusivity (it is possible to obtain it repeatedly by payment) and of refusal (it is not required by everyone) –, the Bank defended the idea of higher education as a commercial service. Nevertheless, many authors propose the concept of higher education as a public good and that, consequently, there should be no private supply, neither the charging of fees from pupils and their families. Thus, the application of market forces to goods and services produced by higher education would be inappropriate. Besides, and despite the fact that systems often fail to achieve the universalization of service, the supply of free education by public institutions can affect the competition between the institutions that charge fees.

• *Positive externalities*: they happen when the action of an economic agent generates positive effects upon other agents without this fact being accounted for in the formation of prices. The institutions, when supplying education services, confer social benefits whose value is not accounted for in the price of the private benefits purchased by the individuals. So, the logic of positive externalities can justify the intervention of the State in a context in which governments subsidize, but do not supply, higher education, such as the public financing of non-profit private institutions with a view to maximize social welfare. The recognition of positive externalities can also justify the public economic assistance to low-income pupils. If people with higher education create social benefits, it is very likely that the market of undergraduate courses should fail to maximize social welfare, because underprivileged students do not have the financial means to attend these courses. In this way, public subsidies (credits or scholarships) to allow low-income students to attend higher education can be justified within the scenario of market failures (DILL et al., 2004).

• *Monopoly power:* it is the capacity of a monopolistic business to fix a price for its product that is higher than its marginal cost, a situation that can limit competition so as to make the process inefficient for the whole society. The idea of perfect competition requires a market with many buyers and sellers; therefore, in a situation in which there is only one buyer (monopsony) – for example, governments that purchase basic research –, or in a context of just one or few suppliers, the market can suffer with inefficiencies. Within higher education, it is possible that a context of monopoly occurs as a consequence of the lack of choices in places where there is only one institution, or of oligopoly, when elite universities concentrate the power, becoming inefficient for society as a whole. These institutions can, for example, limit the entry of new institutions into the market for reasons of a historical advantage that is unlikely to be toppled in regard to financing, research infrastructure, and public recognition. Additionally, the market power of some institutions can be conferred through government policies, via the restriction of access to certificates or via subsidies to public universities (DILL et al., 2004).

• *Asymmetric information*: asymmetric information take place in a situation in which one of the parts of the economic exchange has no conditions to assess different aspects of the goods or services that is being the object of transaction because it has insufficient information. According to the theory, every consumer should know what he/she intends to consume, should be aware of all available options, and should judge the differences in quality between them, being therefore able to opt for the consumption of the good or services that maximizes its utility. The accumulation of knowledge is also determined by the regularity with which the individual makes use of the market and learns from his/her mistakes. Thus, within the scope of higher education, the inexistence of previous information and knowledge by the students (imperfect information), and the much larger knowledge by the institutions (in comparison with the students') about the services offered will generate significant market failures. According to David Dill et al. (2004),

> [w]hile commercial publications clearly have an incentive to provide information to student consumers in the form of university league tables and guides, the demonstrable influence of academic prestige on behaviour in higher education and the cost and complexity of measuring academic quality validly and reliably suggest that the market may not adequately address the problem of imperfect information. (p. 335)

Some authors assure that the solution to the problems of asymmetric information about quality is a fundamental requisite to allow the market mechanisms adopted in higher education to produce benefits for the societies in terms of efficiency.

According to Alberto Amaral (2009), the problem of information in a context of competition is truly critical, because higher education displays three simultaneous characteristics in a form that is almost unique: it is a good of experience (its characteristics can only be well assessed after the student has attended a good part of the course); it is a rare acquisition (in most cases, a student will attend a single course during his/her life); and it has a very high cost of evasion (leaving a course is not easy, because of the funds and time already invested in it). Besides, higher education is considered as a *positional good*, since the symbolic value of the institution attended (and not the intrinsic content or its effective quality) gives the student a competitive advantage when looking for good jobs, in addition to academic prestige and social recognition. Thus, in a context of competition within higher education, quality is defined subjectively, and tends to be determined by where status and the elite are to be found, instead of the status being determined by quality.

From the analysis of the market failures described here, it can be said that, within contexts of competition in higher education, imperfections always occur, since apart from the natural lack of previous knowledge by the users (students and their parents) about the quality of education (asymmetric information), the processes of construction and transmission of knowledge create positive effects which are unaccounted for in the formation of prices (positive externalities). Failure to consider the positive effects – for example, the social benefits generated by higher education – can occur both in a context of quasi-market, through the underassessment of the value of scholarships by the government, as in a context similar to that of competitive markets through the imprecision of the prices of fees at a private institution. Therefore, regardless of the degree of insertion of market mechanisms into the regulation of a system of higher education, government intervention will always be necessary due to the constant presence of market failures, especially of asymmetric information and positive externalities.

Higher education and the indispensible State regulation

Apart from the need to correct market failures, there are other important reasons for governments to intervene in higher education, such as the strategic role that education has for the development projects of the countries. The specialized literature shows a vast production highlighting the fundamental importance of higher education systems for the socioeconomic development of the nations. To Boaventura de Souza Santos (2004),

> the university is a public good intimately linked to the project of a country. The public and cultural meaning of this project and its viability depend on the national capacity to negotiate in an articulate form the insertion of the university in the transnational contexts. (p. 116)

The preamble to the UNESCO World Declaration on Higher Education for the Twenty-first Century: vision and action (1999) highlights that "higher learning and research now act as essential components of cultural, socio-economic and environmentally sustainable development of individuals, communities and nations" (p. 58).

The World Bank itself in one of its latest documents on higher education, Constructing Knowledge Societies: new challenges for tertiary education, refers to Lawrence Harrison and Samuel Huntington to say that

> [t]ertiary education institutions[4] have a critical role in supporting knowledge-driven economic growth strategies and the construction of democratic, socially cohesive societies. [...] Its academic and research activities provide crucial support for the national innovation system. (WORLD BANK, 2003, p. 23).

Since the market is oriented by the search for profit, especially in the short term, a system of higher education regulated exclusively by the market would fail to produce some of the fundamental educational services, such as knowledge production, particularly in the field of the social and human sciences, because it does not have commercial appeal and financial reward. The very creation and offer of courses in knowledge areas with a shortage of professionals and without economic pull would also fail to happen in a context of a

4- The World Bank communiqué Constructing Knowledge Societies: new challenges for tertiary education (2003) adopts the OECD (Organisation for Economic Co-operation and Development) concept of tertiary education: "It is a level or stage of studies after secondary education" (p. ix).

system composed only by private institutions. Besides, ethical, humanistic, and citizenship values, the pillars of social capital indispensible in the construction of solid and democratic civil societies, would probably be neglected by an education system without curriculum guidelines, and with its sole focus on the technical-professional formation in response to demands of human capital.

Research would be especially affected in a system with exclusively private funding. According to Boaventura de Souza Santos (1994),

> [...] since the 19th century, the University aims to be the locus par excellence for the production of scientific knowledge. It is not surprising, therefore, that its reputation is traditionally measured by its productivity in the domain of investigation. [...] The disinterested search for truth, the autonomous choice of methods and themes of investigation, the passion for the advancement of science, constitute the ideological hallmark of modern university. They are the ultimate justifications for the autonomy and institutional specificity of the University. [...] Actually, investigation has always been regarded as the fundament and justification of education at the "university level", and the "atmosphere of investigation" as the ideal context for the flourishing of the moral values essential to character formation (p. 173).

Because the restriction of public funds would certainly induce universities to seek resources with the private sector for the development of researches, which would obviously result in shifting the objectives of the investigations to a technological aspect, and according to commercial interests. Thus, a kind of degeneration of scientific priorities would ensue, since researchers would lose substantially their freedom of choice regarding the objects of their investigations. The financing of the research would then depend on businesses and industries being interested in the projects, according to the possibilities and perspectives of profits and return in the short term; in other words, the so-called disinterested research would give way to a market-oriented applied research. Depending on commercial priorities and profit, a reduction in publications, debates, and free circulation of the results of scientific work would also occur as a consequence of demands by the funding businesses to preserve their competitive advantages through patents and industrial secrets (SANTOS, 1994).

In this way, a higher education system regulated solely by market mechanisms would make it impossible for governments to assess, plan, and orient important education services, such as university scientific investigation and full-time teaching (professional, pedagogical, ethical, and citizenship) with a view to foster social development and the economic growth of the country.

Recent studies indicate that, until now, no country in the world has implemented a really competitive market in higher education in such a way that the costs of fees are determined according to the predictions of economic theories (DILL et al., 2004). According to Vincent Vanderberghe (2002), few education systems in the world operate as true markets in which all suppliers (institutions) are financed directly by the users (parents and pupils), and where there is freedom of choice. The exceptions are a few underdeveloped countries such as Kenya and Sri Lanka, but even here many institutions do not aim at profit and cover only the basic levels of education.

A largely free market in higher education seems really difficult to implement, since that would require: (i) the absence of rules for entry, permanence, and leave of institutions and courses in and out of the system; (ii) the institutions should all be private; (iii) financing should also be largely private; (iv) the competition to supply the various services offered by the institutions could not suffer any intervention from the State. Therefore, apart from the need of governments to constantly correct market failures (to maximize social benefits and keep adequate levels of equity), the strategic mission of higher education in the socio-economic development of the countries leads governments invariably to intervene in higher education.

It is therefore evident that the qualitative consequences of a higher education system without any form of State evaluation, regulation and supervision of the institutions, courses and curricula would be undesirable for most education stakeholders, such as governments, families, businesses, pupils, teachers etc. Consequently, and notwithstanding the emergence of market mechanisms being a reality in many countries, the establishment of perfectly competitive markets in higher education remains very unlikely.

Conclusion

The present article dealt with and analyzed aspects related to the recent emergence of market mechanisms in higher education, taking into account economic concepts such as those of market failures, quasi-markets and perfectly competitive markets. In the course of the work it could be seem that the existence of competition within the field of higher education is not new. However, the appearance of market competition as a regulation element through the strong support of government policies constitutes a recent phenomenon.

Paradoxical as it may seem, the development of market mechanisms in higher education requires, in principle, the action of the State; that is to say, the establishment of competitive behavior with respect to services of higher education relies at first on government policies. The recent emergence of market mechanisms in higher education, for example, had its genesis in the guidelines of reforms with privatization and reduction of public investment in higher education which were transmitted by multilateral international organisms to several countries.

The study conducted here pointed out that, within the sphere of the systems of higher education, the adoption of the market as the single element of regulation and the establishment of perfectly competitive market are highly unlikely. This is due to the specificities of higher education that engender market failures in a context of competition and, moreover require important government interventions with the purpose of achieving the social benefits and strategies of socio and economic development. Therefore, the contexts of competition that are effectively emerging in times of commercialization of higher education can be better classified as quasi-markets than as perfectly competitive markets, considering that they combine State regulations with the introduction of some market mechanisms.

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Received 24.08.2010

Accepted 12.12.2010

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