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Toward a Clearer Understanding of Privatization

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Abstract

The trend toward privatization in higher education is clearly accelerating, as evidenced in both the scholarly and popular presses. It remains unclear whether governments cannot, or choose not to, provide sufficient resources to public postsecondary education, but intelligence points to a myriad of possible points of contention. For instance, the subprime mortgage crisis, downturns on Wall Street, declining state tax bases, and other recently emerging trends suggest little relief is in sight. Furthermore, higher education and the states most likely won't be relieved by other long-term fiscal pressures. K-12 education and Medicare are frequently factors behind funding shortages. State policy continues to encourage competition not only with private institutions but also with other public institutions on a mounting set of issues. For example, Ohio created a program in which its public institutions compete for a $150 million pot of research funding (Richards, 2007). Institutions continue to compete for students and their mi tion dollars, particularly those students who have the means to pay or to use their state-based merit dollars. The competition for students will be especially acute in states, such as Colorado, that have adopted a voucher-style funding structure. Tuition and vouchers, not state block grants, have become an increasingly important source of revenue for some public research universities. States too are recognizing the funding problem and realize that if they cannot provide the resources for their institutions, they should allow them the autonomy and flexibility to set and keep their tuition and to compete for students, investments, and faculty with little state intervention.

Disciplines

Education | Educational Leadership | Education Economics | Higher Education | Higher Education Administration

Toward a Clearer Understanding of Privatization

PETER D. ECKEL AND CHRISTOPHER C. MORPHEW

The trend toward privatization in higher education is clearly accelerating, as evidenced in both the scholarly and popular presses. It remains unclear whether governments cannot, or choose not to, provide sufficient resources to public postsecondary education, but intelligence points to a myriad of possible points of contention. For instance, the subprime mortgage crisis, downturns on Wall Street, declining state tax bases, and other recently emerging trends suggest little relief is in sight. Furthermore, higher education and the states most likely won't be relieved by other long-term fiscal pressures. K–12 education and Medicare are frequently factors behind funding shortages. State policy continues to encourage competition not only with private institutions but also with other public institutions on a mounting set of issues. For example, Ohio created a program in which its public institutions compete for a $150 million pot of research funding (Richards, 2007). Institutions continue to compete for students and their tuition dollars, particularly those students who have the means to pay or to use their state-based merit dollars. The competition for students will be especially acute in states, such as Colorado, that have adopted a voucher-style funding structure. Tuition and vouchers, not state block grants, have become an increasingly important source of revenue for some public research universities. States too are recognizing the funding problem and realize that if they cannot provide the resources for their institutions, they should allow them the autonomy and flexibility to set and keep their tuition and to compete for students, investments, and faculty with little state intervention.

What seemed like science fiction only a few years ago is now a familiar (albeit not well-accepted) part of the higher education landscape. Consider the following examples:

- A member of a statewide commission in Virginia suggests inviting a private institution from another state to set up a branch campus to meet the state's projected high-tech needs. This proposed campus would be a neighbor to a growing public, four-year university, competing directly with it for students, faculty, and research support.
- Miami University in Ohio doubles the price of its in-state tuition to "allow it the same pricing flexibility as its private university competitors."
- The most prestigious universities in Virginia seek legislation to become "state-assisted charter universities" under which they would accept limited state aid and, in exchange, receive freedom from many state policies and regulations.
- The governor of South Carolina offers to let any public institution become private because, "given the unusually high number of colleges and . . . and the scarce dollars with which we've got to fund all of them, this is a way to give certain schools the flexibility they want, while saving the state money at the same time" (Eckel, Couturier, and Luu, 2005).

While these examples are a limited set within a highly complex and differentiated higher education system, they nonetheless are remarkable in their demonstration of how the rules governing higher education are being rewritten. They are the real-life examples that the models, propositions, and arguments in the preceding chapters address. What they have in common is the element of the market: each example demonstrates a state's willingness to allow (or some might say push) its universities into the competitive marketplace.

The footprints of privatization are clearly recognizable, not only in the chapters here but also throughout the landscape of higher education in the United States and elsewhere. Its contours are consistent: (1) increased reliance on private dollars to supplement insufficient public investment, (2) changes in oversight to alleviate cumbersome regulation, and (3) an increasing reliance on market mechanisms. Even though the authors in this volume adopted definitions that closely reflected these dimensions, their approaches, and, interestingly enough, the questions they pursued varied greatly. This was intentional. The book sought multiple lenses through which to understand privatization because, while not overly complex by definition, it is conceptually ambiguous and highly involved. Only through multiple perspectives can we begin to understand why, how, and with what potential effects privatization has and may have on public higher education.

A Collective Understanding

As the book demonstrates, privatization is a nuanced phenomenon, and one that can and must be understood from a variety of vantage points. Key insights into privatization readily appear when the chapters are taken as a whole. They surface from commonalities across the different approaches, divergences that distinct frameworks naturally suggest, and, interesting enough, from points not said.

Points of Convergence

Some important intersections exist throughout the chapters. First, positive externalities need to be factored into discussions of privatizing public higher education. The consistent message by the various authors that addressed it, regardless of framework, was that understanding the effect of privatization on higher education required more than acknowledging its primary effect on individual or sets of students. Broader societal, economic, cultural, social, and civic benefits must be factored into any equations that attempt to measure or to define the value of postsecondary education and its institutions. Although higher education is very much a value proposition to students and their families, it offers much more to the larger communities and society. This point cannot be lost or even downplayed in public policy discussions.

Second, access and affordability are primary factors in discussing privatization. Closely linked to these ideas are the questions of who pays, how much, and why. As states consider where and how to make their investments, what will the effect be on low-income students? How can states best meet their public policy objectives of expanding access, particularly for disadvantaged students? A serious consideration of privatization cannot take place without considering its effects on the growing numbers of potential students for whom cost is often a primary hurdle to access.

Third, potential trade-offs for decision makers exist in discussions of privatization, particularly for those leaders responsible for formulating policy and trying to lead their campuses in this dynamic, if not confusing, age. The trade-offs examined throughout this book not only focus on who pays, but the elasticity of demand given funding approaches and policy constraints, the values and detriments of increased competition, and the degree of influence and control states may have (or lose) over institutional strategy and direction. Privatization has direct and indirect consequences that must be factored into discussions about it.

Finally, trends in privatization may make it more difficult for states to meet traditional public policy objectives. More precisely, the loosening of state control and substantially fewer public dollars mean that public higher education most likely will have more masters rather than fewer, and public officials will be one of many constituents seeking to exert influence over what were once very public universities. Existing steering mechanisms have less influence and instead of a single source (public policy/funding), institutions are responding to numerous drivers, political, social, and particularly economic that may pull higher education in competing directions. Ultimately, privatization may be about exchanging one set of controls for another, and institutions and policymakers may not like the direction in which public higher education is steered.

Different Starting Points

Consistency and consensus were not the objective of this book. Instead, the differences surfaced by the approaches in this book may be more illuminating than the similarities. The different starting points of each inquiry are insightful and point to key issues that demand further attention from higher education scholars, campus leaders, and policymakers. Authors identified a striking range of entries into the privatization conversation. Although we asked authors to write from a different conceptual framework, we didn't anticipate the variety of the questions they would pursue. For instance, Michael K. McLendon, Christine G. Mohker, and Carlo Salerno asked context-based questions:

- Chapter 2: What are the drivers shaping state-policy privatization, and what are the sources of these drivers? What trends in allocating resources and proposing new policy initiatives do these drivers create? What do we know empirically about the trends?
- Chapter 8: How are the fiscal pressures on public budgets shifting across Europe and what effects is this having on European universities? What is changing and with what consequences, with a particular emphasis on funding and operating autonomy? What are the practical implications of trends in Europe for public research universities in the United States?

Robert Toutkoushian; Peter D. Eckel and Christopher C. Morphew; Gabriel Kaplan; and Mark Stater ask questions relevant to particular (and different) actors in the privatization debate.

- Chapter 4: How have decision makers justified public subsidies for higher education, and what factors might account for the decline in state funding over time? What options can states use to support higher education, and what are the costs and benefits of these alternatives? What are the costs and benefits of state support for higher education from the perspective of taxpayers? Why are institutions concerned with their mix of revenues, holding constant the level of total revenues?

- Chapter 6: What should the public role in governance, be given trends in decreased funding? What are the appropriate ownership forms and governing relationships that should exist in the public higher education sector? What are the benefits of privatization (as predicted by theory)? What are the drawbacks (as predicted by theory)?
- Chapter 7: What lessons about privatizing higher education can be learned from the experiences of other formerly public agencies and from existing private institutions?
- Chapter 5: What are the predicted effects of privatization on the decision-making processes of public research universities? How might the organized anarchy and garbage can decision making familiar to these types of institutions be altered by privatization?

In chapter 3, Robert C. Lowry poses deeply fundamental questions about the very purpose and nature of public higher education:

- Why do all 50 states and the District of Columbia have universities that are publicly owned and subsidized universities rather than some alternative arrangement supporting higher education? What are the advantages of the prevailing arrangements, and what concerns would state government officials have when considering proposed changes to the status quo? What are the advantages of public ownership of universities over a system where the state purchases research and other public services from private universities and supports students through vouchers or scholarships?

Because the questions start at different points, the discussions followed different trajectories. Thus, the richness of this book is not a convergence but a divergence that mirrors the complexity of the issue. No simple solution or easy understanding exists. Together, the insights and conclusions help paint a broad picture of privatizing public higher education.

The Unspoken Agreements

What is unsaid across these chapters is also powerful. First, none of the authors questioned privatization as a phenomenon affecting higher education. Wide consensus emerged that public higher education was facing the trilogy of decreased public support, increased market forces, and a distancing from public control. Together, these create a powerful force with the potential to reshape higher education in the United States and elsewhere. Second, no one makes a case that privatization is the consciously made policy answer to the nation's postsecondary concerns (in response to Ikenberry's query in the opening chapter). Rather, it is the seeming result of actions addressing other concerns and in response to limitations—a type of possible policy drift—rather than intentional strategy or objective. Third, the diversity of institutional types and missions important to American higher education (and increasingly important to European higher education) may be increasingly under threat. Privatization may undermine this strength by pushing public institutions to be much more like their private brethren or force institutions with different missions and strengths to pursue similar strategies in pursuit of revenue as institutions follow the lead of the successful ones (Frank and Cook, 1995). The diversity of U.S. higher education has served the nation well. Will this be lost, given the issues addressed throughout this book? Last, no expectations exist for recapturing the earlier glory days of a well-funded public higher education system. Public universities most likely will not see the favoritism and resources (and growth) that followed World War II and continued through the 1960s—we simply live in a different world.

Pieces of the Privatization Puzzle

Taken as a set, these chapters provide the foundation on which to make inferences about higher education's future. They contain the pieces of an emerging puzzle about the privatization of public higher education that can begin to be assembled. When fully constructed, that puzzle may reveal the answers to a number of key policy concerns, several of which are discussed next.

Competition, Potentially Unchecked

Privatization means that it may be increasingly important for larger numbers of institutions to compete vigorously for funding, and they will have both the incentive and the political freedom to do so. On their own, institutions may pursue strategies that best advantage themselves: the recruitment of students with merit aid; the agreements they enter into with corporations regarding research and intellectual property; the types of degree programs they offer; the amenities they build; or the faculty they recruit. The potential danger exists at a collective level. For example, recruiting talented students through merit aid helps an institution compete, but when most institutions are leveraging their aid dollars this way, it does little to expand access. The arms race in amenities provides further negative examples.

Institutions may invest in ways that do not advance their public purposes but instead are driven by a sense of competition. Columbia University spent an estimated $18 million on its failed online effort Fathom that tried to capture the distance learning market (Arone, 2002). That investment represents money that may have gone a long way to support other more socially relevant efforts. Another extreme is the way Texas institutions are competing for students with one another through amenities:

> The competition for students and recognition is fierce in Texas. . . . The new distinction [of the tallest climbing wall at the student recreation center] will help separate [the University of Texas at San Antonio] from the rest of the pack. The wall . . . beats out [the University of] Houston's wall by one measly foot. That should sound familiar to Houston officials. Two years ago they built their climbing wall to be exactly one foot taller than the one at Baylor University. (McComack, 2005)

Furthermore, competition unchecked has the potential to put new drivers behind the institutional steering wheel. Students and their families (as consumers wielding large tuition checks) may gain significant influence over institutional priorities. The degree programs students want, the curriculum they think they need, the amenities they seek (including higher and higher climbing walls), and the convenience they demand may be hard to deny, particularly given the potential threat to enroll elsewhere. Some institution somewhere will be willing to meet their demands regardless of how far afield they may be. Concurrently, corporations willing to support institutional ambitions may demand (or be allowed) greater influence over institutional agendas, relating directly to their investments and potentially more broadly. For example, BP has awarded the University of California at Berkeley, the University of Illinois at Urbana-Champaign, and the Lawrence Berkeley National Laboratory a $500 million grant for research on alternative energy sources that would give BP the ability to capitalize on research breakthroughs. Berkeley is the same institution that entered into the controversial five-year, $25 million deal with Novartis that involved most of the plant sciences department and allowed the company first rights to negotiate licenses on inventions by faculty members who participated in the agreement, even if the work had been supported by other funds.

Growing Disparities and Increased Homogenization

Not all institutions are the same. This differentiation has long been a comparative strength of American higher education. Different types of institutions serve different populations of students in different ways (and at different price points). No other nation has the diversity of institutions as the United States; however, this diversity means that some institutions are better equipped to play by the new rules of privatization than others. Those institutions best positioned to benefit will likely be the diversified, entrepreneurial universities that already have a reputation and track record of financial success. These institutions will have a range of available revenue streams to tap and offer a variety of degrees across the spectrum of fields and disciplines to respond to changing market needs of students and employers. In addition, they have well-developed auxiliary services and the means to commercialize research. A small subset of institutions with specialized missions or niche reputations may buck this trend, but they will most likely be few in number. The flip side of this argument, of course, is that not all public institutions fit into one of these two descriptions, particularly tuition-dependent, undergraduate-focused regional colleges. They too must play by the same rules regarding financial self-sufficiency and policy autonomy as new public policies emerge and the role of the state declines. The higher education sector may well see a further stratification of institutions by wealth. In turn, institutions on the losing end may not have the resources or the protection of well-meaning public policy to maintain their quality. Since these colleges and universities tend to enroll larger proportions of students who may benefit most from a higher education (i.e., underrepresented students), downturns in quality at these institutions has potential tremendous social consequences.

Concurrently, and conversely, more institutions may work feverishly to become more like one another. They will see what the successful institutions, which often are more prestigious and already wealthy institutions, are doing and try to imitate them. Because organizational success in higher education is complex and difficult to understand, institutions will look to mimic others regardless of their own strengths, capacities, and starting points (Meyer, Deal, and Scott 1981; Morphew, 2002). U.S. higher education may witness a common organizational model begin to emerge as institutions learn what works (and what is rewarded) in the new privatized environment. At risk is differentiation as well as waste in a system as institutions pursue the same strategies, which in turn simply cancel out the various investments. Does American higher education (or society) really need another executive MBA program?

Limiting Access

Privatization has the clear potential to undermine access and affordability. For example, between 1995–96 and 2005–6, tuition and fees increased in constant dollars at public four-year universities from $3,564 to $5,491 (College Board, 2007). Given the discussion throughout the book, trends toward privatization seem to suggest that such increases will only grow more rapidly. Students from disadvantaged backgrounds will continue to struggle to afford college. Furthermore, potential students in the pipeline may begin to think that college, or any postsecondary education, is financially out of their reach and thus may not lay the foundation of success in high school. Simultaneously, privatization may push more colleges and universities to compete for those best able to pay for the full cost of their higher education (see chapter 7, for example).

Tensions in Quality

Privatization elevates a different type of quality than historically advanced through public policy, which creates tension. Quality in the public policy arena has notably focused on outputs: how well students learn or the extent to which they contribute as informed citizens after graduation. From this perspective, quality often focuses on undergraduate education and the preparation for civic, vocational, and intellectual participation. It also encompasses the service activities institutions in addressing pressing social needs, such as K–12 education, poverty, or health care. However, the notion of quality in a privatized (and competitive) environment is different. For example, quality is measured as input, for example, on SAT scores, class rank, the number of National Merit Scholars, and, even, the number of volumes in the library.[1] In addition, quality becomes associated with graduate and professional education (although it may not leave undergraduate education behind). It is about the number of graduate students and the range of graduate degree programs—advanced and specialized learning—not foundational education or deliberative democracy. Furthermore, privatized quality stresses the research dimensions of higher education. It is about the status and credentials of "star" faculty, who may or may not teach undergraduates or the ability of an institution to attract external support—government and corporate—for research. Finally, it is about regional economic development: that is, how well and to what extent has higher education applied its strengths to solve economic problems or to make the region more competitive? Although these two notions of quality are not complete opposites they have some important inconsistencies that may have significant social impact as institutions choose where to spend their scare resources and time.

Conclusion: Where Next?

This book has covered much ground. It has explored, dissected, and explained many aspects of privatization from numerous vantage points. However, the ideas suggest many questions. In fact, many of the authors pose important questions that need to be addressed. For instance:

- Is privatization simply a shorthand description of the diminished will and capacity of state government, or does the concept suggest a broader, deeper transformation?
- How do the shifting political contexts of the states and the political process by which public policy for higher education is formulated shape privatization trends?
- How might researchers empirically show decision makers why they should reallocate funds for public higher education? (Simply listing potential externalities is a poor substitute for empirically based estimates of the social benefits.)
- What empirical research might support or challenge the idea that privatization will lead to more anarchy and less organization for campus decision makers?
- How will market segmentation and mission differentiation effect and be effected by privatization?
- How do states develop fiscal and governance approaches that, as Kaplan asked in chapter 6, "walk the thin line between instituting price controls and simply establishing bodies that record citizen commentary"?
- If privatization is going to be a long-term reality for public higher education, what are the likely effects of privatization, particularly the unintended consequences?
- What are the trade-offs of efficiency / effectiveness / public purpose in privatization? What tools might be helpful for decision makers to understand the potential effect of their approaches?

Privatization is a topic growing in importance and supported by an expanding research and theoretical underpinning. The debate is far from over, however, and must be informed by theories from many disciplinary perspectives. Too many complex discussions on the surface are about funding and oversight, but in reality, they get to the heart of public higher education and need to be treated as such. Privatization is truly about higher education's ability to provide access and to ensure social mobility, its ability to deliver on unmet state needs, its growing role in the exploding knowledge economy, and its ability to be a social conservator. These discussions need to be treated with the weight they deserve.

NOTE

1. Ironically, measuring the quality of higher educations using these inputs is exactly what many critics of higher education, including those in government agencies, have been arguing against.

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