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‘Privatization and Public Universities’

The cover of Privatization and Public Universities features a brick campus wall with a “For Sale” sign taped to it. The collection of essays arrives from Indiana University Press at a time that many fear that public universities and their values may indeed be for sale — as states pull back from their role providing both funds and leadership for public higher education. Two scholars of higher education — Edward P. St. John of the University of Michigan and Douglas M. Priest of Indiana University — edited the collection and answered questions about its themes.

Q: What is your definition of “privatization” and why are tuition rates so key to your concept of privatization?

A: We assert that public universities have been affected by shifting state priorities. In response, public institutions are instituting many private sector methods of revenue generation and financial management in hope of maintaining, if not improving, their academic reputations. This plays out in the shift in funding from tax dollars to tuition revenue, a trend in public higher education since the early 1980s, which has been the best indicator of the transition to a private college model within public universities, especially for financial operations. The chapters in our book address different aspects of this transition. In one chapter, Don Heller examines changes in state funding of public colleges and student aid. In another Don Hossler considers how institutions manage tuition charges and student grants to improve tuition revenue. Other forms of privatization are also examined by the authors, including: the increased emphasis on generation of private capital through formation of private corporations and patents, a topic addressed by Josh Powers; the development of e-learning systems as commercial enterprises, the focus of Jim Farmer’s chapter; and the increased use of private corporations to provide university services, the focus of a chapter by Priest, Jacobs, and Boon. Similar to private colleges, public universities must contend with commercialization of research and contracting of services, but they are also adjusting to basic changes in their financial operations and marketing strategies as a consequence of rising tuition.

Q: Some in public higher education argue that a high tuition/high aid model is more progressive in that it does not provide large subsidies to wealthy families. Is this argument valid?

A: The reality of high tuition/high aid did not match the vision advocated by progressives. Institutions leverage student aid to generate tuition revenue, replace tax dollars but adding to inequalities created by the shift in public finance. While rising tuition is a fact of life in public universities, student aid remains ambiguous and uncertain. There are many different types of student financial aid: need-based grants, loans, merit grants, and work-study, along with various other student subsidies. In their chapter, St. John and Wooden trace the shift in federal policy from emphasizing need-based grants in the 1960s and 1970s to pushing loans in more recent decades, a transition that stimulated new forms of aid in states and institutions. Heller examines how increases in tuition and loans have been accompanied by merit grants at the state level, while Don Hossler discusses the emergence of aid leveraging in public universities as a response to privatization. With the rise in tuition charges at public colleges, it is also necessary for state funding for need-based grant aid to grow if states are to maintain opportunity for enrollment in four-year colleges by qualified low-income students in their states. In one of the concluding chapters, St. John examines strategies states can use to decrease inequalities in financial access among qualified students. Privatization coupled with need-based grants can enable states to save tax dollars, compared to low tuition, while also maintaining educational opportunity. In contrast, raising tuition without making sufficient investment in need-based grants creates inequality. In the concluding chapter we focus on finding ways to enable the emerging privatized systems to work better, rather than merely criticizing these trends.

Q: Public higher education has fully entered the fund-raising world, with numerous universities running billion-dollar campaigns and even small community colleges starting fund-raising efforts. How does this alter colleges' missions?

A: In general the traditional approach to developing endowments can be mission enhancing, a topic addressed in a chapter by Conley and Temple. They argue that public colleges and universities must emphasize development as a response to trends in public finance, following the pattern used by private colleges. However, there is a more general problem with the emphasis on generating revenue from tradition sources like endowment, tuition, state funding, and research grants. Research universities raise revenue through research grants, a long-standing pattern that benefits the educational mission, but many of the new ventures do not emphasize instructional programs. The efforts to generate revenues from alternative sources contribute only marginally to subsidizing the costs of instruction, an issue addressed by Jim Hearn. Some new ventures — including pursuit of profits from sales of university services or from creation of private, university-owned corporations can alter missions — can detract from the central activities in public universities. Many of these alternative revenue sources require creation of new services in exchange for income, a practice that can alter the core mission of universities. Hosting conferences, engaging in partnerships with private corporations, and creating e-learning enterprises often require substantial investment costs, as risk capital, a situation that substantially complicates financial management. In the concluding chapter we recommend using a mission-oriented approach to these investment decisions, emphasizing revenue generation that can enhance, rather than detract from, education and other core missions of the university enterprise.

Q: Public higher education has traditionally been based on local (state) communities. These days, a student at University of Maryland University College or Penn State World Campus is not necessarily from those states. Is that a good thing?

A: Some of the new collegiate enterprises — like the two campuses noted in this question — sidestep the issue of access for residents by setting up separate profit centers that generate revenues from students without using state subsidies. In these instances the new enterprises do not decrease admission slots for residents for the main campus programs. However, the issue of opportunity for resident students remains crucial. Most state universities continue to reserve the majority of their admission slots for state residents. Based on the contributed chapters, we concluded that it is crucial that state funding be linked to a targeted number of students and be provided on a per student basis. Currently states and universities essentially construct the percentages of costs paid by taxpayers and by students through political processes worked out in state and institutional budgets. Too often politics dominate budget processes, too seldom is the underlying problem of privatization is discussed by the press, and too frequently admission of out-of-state students becomes a newsworthy issue. Historically most public universities had at least some freedom to charge the full education costs to out-of-state students, a strategy that enabled them to remain competitive in a national market that emphasized quality as measured by test scores. On the one hand, expanding out-of-state enrollment can enable universities to build higher quality educational programs and to retain high quality faculty. On the other hand, states subsidize facility costs and space for new students in public universities may be limited. Clearly it is important to coordinate public finance strategies so as to expand educational opportunity without increasing inequalities in financial access.

Q: What measures do you recommend for determining whether a public college is still performing its public mission? Are there red flags that suggest a college may be crossing a line?

A: Unfortunately, most of the public accountability schemes implemented by states to date have not addressed two of the most critical issues related to protecting the public interest in higher education: 1) opportunity to enroll in four-year colleges for low- and middle-income students who have taken the steps to prepare for college; and 2) evaluation of the efficacy of state policies in achieving this goal. Accountability schemes typically reward universities with additional funding for meeting goals related to retention, diversity, and other outcomes in the interest of universities and students who can pay the cost of attendance. While such efforts can be appreciated for their marginal contributions to university budgets, they simply do not protect the broader public interest. When states encourage students to prepare for college but fail to provide enrollment opportunity, there is a breakdown in the public trust, if not an erosion of the public good through decline in economic opportunity. There are a range of indicators related to the quality of education (i.e., advanced course completion by high school graduates, test scores for high school seniors, enrollment rates for high school graduates, and college graduation rates), as well as crucial equity indicators (e.g., high school graduation rates for both majority and minority students, college enrollment rates for prepared students across income groups, and college graduation rates across income groups). The current accountability systems in both K-12 and higher education emphasize the quality indicators and overlook the equity indicators. To fulfill the promise of quality education for all, states must emphasize both quality and equity, perhaps using both types of indicators noted in brackets above. The crucial issue is to find a better balance, not only between the different types of outcomes emphasized in accountability schemes, but also between the types of policies actually implemented in states relative to those outcomes. Most policymakers overlook how public finance policies — state funding for schools, colleges and students, and accountability schemes — actually influence quality and equity outcomes. Unfortunately state funding and accountability policies often undermine the very outcomes they aim to encourage. A more systematic approach to policy development and evaluation is needed in states.

Q: Are there public colleges or universities that have dealt with changes in economic and political trends while also doing a good job of preserving their public missions?

A: States bear the primary responsibility for financing education in ways that enable colleges to maintain their public missions. A few states, including Minnesota and Indiana, have strong records of coordinating state funding of colleges with student aid in ways that maintain college affordability for middle- and low-income students. It is especially noteworthy that Minnesota has also emphasized using peer funding information as a basis for setting revenue targets that guide the setting of public subsidies to college, tuition charges, and funding for need-based grant aid. This model has worked well and merits wider emulation. There are also a few universities that have taken bold steps to protect the public interest through new initiatives. For example, the University of Michigan defended affirmative action as a means of ensuring diversity; and the University of North Carolina created a "covenant" to guarantee adequate funding for low-income students who met admission standards. Such bold institutional initiatives come at great expense for privatizing public universities and require substantial philanthropic support. It may be imprudent to expect most public universities to uphold the public interest when their states abdicate their obligations and they lack large endowments.

— Scott Jaschik