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ABSTRACT

This paper discusses privatization of public higher education, noting that some form of it exists on almost every college campus and that it is part of the wider movement toward less government. Four models of privatization are defined: public production with public finance; public production with private finance; private production with public finance; and private production with private finance. Two are examined here: public production with private finance (increasing support coming from private fundraising) and private production with public finance (deregulation). The report examines: (1) forces behind privatization, including fiscal constraints, current political climate, and declining confidence in higher education; (2) forces and factors that support privatization, including the need for deregulation and increased autonomy, and privatization as the best response to the current political mood; and (3) arguments against further privatization, noting that general funding of public higher education cannot be replaced by private funding, that private sources of revenue come with priorities attached that may not match those of the institution, and that privatization can compromise the historic role and mission of institutions. A final section discusses privatization's impact on the mission and philosophy of the institution or on the state's role in higher education. (Contains 11 references.) (SM)

Privatization: The Challenge Ahead for Public Higher Education

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Winter 00

A brief look at the public higher education landscape reveals that privatization exists in one form or another on almost every college campus. Whether it is the outsourcing of a service or increased private fundraising to offset declining state appropriations, privatization is on the rise. Broadly defined, "privatization is the act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets" (Savas in Gilmer, 1997, p.5). It is thought that privatization will increase market forces and competition, and that this will lead to greater efficiency in the allocation of resources. Further, privatization is thought to lead to a better higher education product at a reduced cost (Gilmer, 1997). Those that see privatization as benefiting public higher education see the entanglement of the state and its bureaucracy as weakening the efficiency and strength of higher education. Privatization of public higher education is part of a wider movement towards less government.

In beginning to discuss this issue, it is helpful to define privatization in terms of public higher education. Gilmer's (1997) model of production and finance serves this purpose well. This typology relies on the idea that "production and finance are of primary concern since they are the uniquely distinguishing characteristics of privatization" (p. 7). This four-part typology separates privatization into four models.

1. The first model is **public production with public finance**.

   This is your typical government-run and-financed model that public higher education operates within to a large, though decreasing, extent.

2. The second model is **public production with private finance**.

   This is a diversification of revenue model that includes such schemes as increasing tuition and user fees, and other revenue generating strategies in higher education such as private fundraising.

3. The third model is **private production with public finance**.

This model includes a myriad of modus operandi including contracting, deregulation, franchises, grants and subsidies, and vouchers. This area is often the one that people think of first when they think of privatization in higher education. Public institutions have a long history of outsourcing either through contracting or franchising services to private vendors. Deregulation in higher education occurs when governments relax or repeal regulations and allow individual institutions or groups of institutions greater autonomy. This often occurs in conjunction with an agreement on the part of the higher education institution to accept lower levels of funding. Grants and subsidies can take many forms with financial aid being one of them and the other one being direct subsidies to particular vendors to provide a service. Vouchers give public money to consumers to use at an institution of their choosing.

4. The fourth area in this privatization typology is **private production with private finance**.

   This area includes load-shedding and divesture. This form of privatization occurs when the government decides to stop providing a particular service and leaves it up to the market to provide this service (Murphy in Gilmer, 1997).

Though all forms of privatization within higher education are worthy of discussion, this paper will examine the more controversial aspects of privatization. This paper will be limited to a discussion of the second area, increasing tuition and the increasing amount of support coming from private fundraising, and to the third area in terms of deregulation. The objectives of this paper are to examine some of the forces behind privatization, discuss the forces for and against privatization in the form of increased tuition and private fundraising in a deregulated environment, and outline some of the implications of the move to privatize.

Forces Behind Privatization

A review of the literature demonstrates three main forces behind the move to privatize higher education are fiscal constraints, the current political climate, and a declining confidence in higher education. The first of these forces, fiscal constraints, is best described as a sustained continual decline in state appropriations for higher education despite a healthy economy and in some instances state surpluses (Breneman, 1997; Gilmer 1997). Breneman (1997) notes that during the first half of the 1990s, a period marked by recession, higher education lost the most ground in state budget battles with the proportion of state funds devoted to higher education dropping to 12.5 percent from 14 percent at the beginning of the decade. Higher education may now be seen as almost discretionary in terms of funding as compared to state prisons, health care, and K-12 education. In fact, Yudof (1992) notes that in many states these services carry funding and spending level mandates, sometimes by court order, while higher education is often funded without such mandates.

Breneman (1997) gives a snap shot of what fiscal restraints and declining appropriations have translated to in terms of support for two large public institutions. At the University of Michigan, in 1997, state support accounted for only 10 percent of total revenue and 18 percent of the academic budget; at the University of Virginia in 1995-96, state support made up 13 percent of total revenue and 21 percent of the academic division revenue. He notes that at the University of Virginia the share of state support for the academic division dropped by twelve percent in the five years from 1990-91 to 1995-96. This represents a loss of $61.6 million during that time. Given the fact that many states now enjoy some type of budget surplus, but continue to fund higher education at increasingly lower levels, the outlook for increased state funding looks bleak.

The poor political climate for public higher education is one of the reasons that higher education continues to see shrinking appropriations in the face of budget surpluses. This phenomenon can be seen as part of the overall move to downsize government in the name of savings and efficiency, and what Gilmer (1997) calls our country's move to the right. It is also recognition that higher education is increasingly seen as a private gain rather than a public good or service. Yudof (1992) notes that in the early 1990s only 37 percent of all households had children under 18, which is down by more than half since the 1950s. This means that less and less of the public has a direct stake in college education through their children. Additionally, those whose numbers are increasing in the under eighteen category, namely minorities, may not have the same political clout as other constituencies. The message seems clear, "let those with a direct stake pay" (Yudof, 1992, p. A50). The political climate is so strong against increasing funding that it is now common for legislatures and governors to "encourage public institutions to consider various forms and degrees of privatization to conserve funds" (Gilmer, 1997, p. 7). Blumenstyk (1992) quotes Breneman as saying, "it seems to me there is ample evidence that the public isn't willing to tax itself for this purpose" (p. A25).

Beyond the issue of public support for a benefit that doesn't accrue to the majority of tax payers, there is a growing lack of public confidence in the outcomes that higher education achieves with its students and the public investment needed to produce those outcomes. Yudof (1992) notes that "many taxpayers believe that undergraduate education, in particular, has suffered at the hands of university administrators and professors. . . and many [people] are increasingly distrustful of what they perceive to be a 'sacred cow'" (p. A48). Schmidt's (1996) characterization of the confidence in higher education in Florida is best summed up through the chairman of the higher education committee in the legislature. He states that Florida taxpayers have sent "a very strong message that they are not going to send us any new money until we show them a better return on the dollars they have already spent" (p. A42). Further support for this notion of a better return on dollars spent is the number of recent college graduates that rate their current employment as having little or nothing to do with what they learned in higher education (Boesel & Fredland, 1999). Further, Gilmer (1997) cites popular media as projecting the idea of higher education as obsolete and self-serving through its character and institution portrayals on television and in the movies. These factors create a pattern for the public that adds up to a lessening of confidence in public higher education.

Forces and Factors Supporting Privatization

Three main ideas seem to contribute to a move towards privatization of public higher education.

1. State higher education needs to be deregulated so that it can best respond to changes that have come about due to decreasing state appropriations.
2. Privatization creates greater autonomy for institutions so that they can better deliver on their core missions.
3. Privatization is the best response to the current political mood.

The first two ideas come mostly out of an economic philosophy, while the third is more reactionary in nature. But, as will be shown in the arguments for privatization, all three build on the idea that higher education needs to do whatever is necessary to maintain itself and so that it can continue to be a viable institution.

Need for Deregulation

In the era of decreasing appropriations, some higher education institutions have come to see the legislature and the state as a hindrance rather than a partner and aide. This was certainly the case for the presidents of St. Mary's College in Maryland and the University of Florida (Lewis 1994; Schmidt 1996). It is thought that centralized control of such decisions as tuition, makeup of the board, and major purchasing, building and planning decisions would be better left to the individual schools that know their needs. Berdahl (1996) details countless examples of how St. Mary's was able to save money though streamlined procurement and less regulation in its capital programs among other cost saving measures that were made possible because of less regulation. Schmidt (1996) explains the need for less regulation through the voice of the

President of the University of Florida, John Lombardi, who says: "They [legislatures and Boards of Regents] take a one-size fits all approach to the system's diverse institutions, and as a result make bad system wide policy. . . thus discouraging institutions from both undertaking major change to become more efficient, and embarking on entrepreneurial activity to make money" (p. A43). One example of entrepreneurial activities that some schools might want to encourage in a relaxed regulation environment is investing through venture funds in their research spin-offs as a way to make money and still serve their institutions (Blumenstyk, 1996).

Another problem that could be addressed through a lessening of regulations is the need for institutions to eliminate or reduce duplicative or low-quality programs, or raise tuition to what the market will bear. Yudof (1992) believes that currently institutions are reluctant to eliminate duplicate or low-quality programs despite their shrinking budget resources. By far, removing regulations on the amount of tuition an institution can charge is considered a needed deregulation (Berdahl 1996; Breneman, 1997; Lewis, 1994; Schmidt, 1996). Breneman (1997) proposes a move to the use of a high-tuition- high-aid model that would bring tuition in line with what private schools charge. This policy reform mirrors what happened in actuality at St. Mary's when this area was deregulated and tuition doubled in five years from 1992 to 1997 (Berdahl 1996; Lewis, 1994). Further, Breneman (1997) discusses the idea that along with decreasing funds from the state should come the deregulation of appointments to governing boards, which would allow them to be more effective and responsive to the institutions they serve. He suggests that since the state has become a minority stakeholder, it should not determine 100 percent of a board's composition. The deregulation and self-determination that comes along with privatization is considered an outright benefit for higher education.

Need for Increased Autonomy

Closely mirroring deregulation are demands for increasing autonomy and allowing institutions to streamline their focus. The situation in Florida provides a good example of the need for increased autonomy. Schmidt (1996) details how the Florida legislature rolled back appropriations to unbearable levels that have now been codified by a 1994 voter referendum. Meanwhile, the legislature refused to allow its schools to raise tuition "characterizing that as just another form of tax" (p. A42). This left Florida's institutions with increasing enrollment, a cap on appropriations, and tuition rates among the lowest in the nation. The legislature's entire reform focus had been on limiting the number of credit hours of its full-time students as a means of cost saving. The University of Florida president wanted to be given the autonomy that would allow the schools to thrive. He demanded that the legislature give Florida public higher education greater self-determination and predicted a "university system in which presidents make virtually all major decisions, and tuition levels are dictated by the market" (Schmidt, 1996, p. A41). The same scenario can be seen at St. Mary's. Faced with decreasing appropriations that looked like they might never recover to appropriate funding levels, the president sought increased autonomy so that his institution could continue to deliver on its core mission as a public honors college (Berdahl, 1996; Lewis, 1994).

Increased autonomy will allow public higher education the freedom it needs to make choices that allow it to operate with less state funding, while maintaining core missions. Lewis (1994) says that increased autonomy is critical to institutions as they become increasingly privatized, and that his success at the quasi-private St. Mary's could not have happened if he had not been given greater autonomy and less regulation.

Privatization best response to current political mood

The best argument for a move towards further privatization comes from those who acknowledge that an acceptance of privatization in one form or another is the best response higher education can make given the current political mood that shows no sign of abating. This philosophy says in part that it is better for an institution to realize that lower appropriations are here to stay, and that instead of lobbying the legislature for appropriation funds, an institution would be better to adopt a high-tuition – high-aid model and lobby the legislature for increases in financial aid (Breneman in Blumenstyk, 1992). This idea goes along with the current political mood that sees private individuals as receiving the benefits of higher education. In this mindset a state may be more likely to fund the individual student who can then fund the university rather than funding the university directly. As Gilmer (1997) states in this model, those who can afford it will just pay more and those who can't will receive financial aid. Either way, the cost lies with the individual student and family instead of the state and taxpayer at large.

Another idea that responds to decreasing appropriations is the attempt to increase funding through private fundraising. Private higher education institutions have long engaged in fundraising activities. The majority of independently raised money that used to go to private colleges and universities now goes to public higher education institutions (Felicetti in Pulley, 1999). Pulley (1999) notes that during the late 1990s public doctoral and research universities saw their piece of the corporate donations increase from 49.3 percent to 53.4 percent. Breneman (1997) notes that at the University of Virginia federal research contracts and private donations from corporations and foundations made up 27 percent of the academic division budget in 1995-96 as compared to 20 percent from state coffers. Clearly, public higher education institutions are increasingly courting the corporate and foundation dollars as a means to sustain and improve their institutions. This is reflected in the large fundraising campaigns that have started over the last few years at many major public institutions.

Public research universities, and some other state schools, have done an excellent job of replacing money lost from state revenues with other funds in the form of increased research dollars, private fundraising and alumni giving. Yudof (1992) says that despite these cutbacks university budgets have continued to grow. Schools are all too aware that they must make up missing funds from the legislature through private fundraising, and they make no apologies for this activity. The vice president of development and alumni relations at Penn State notes that:

"we would not be able to raise $1 billion or $500 million if we weren't able to have a good persuasive argument for why those funds are needed" (Kirsch in Pulley, 1999). Given that Penn State feels that its obligation is to "provide access to 80,000 students and give them quality," one can see why, in an environment of decreased appropriations, public higher education institutions seek out large dollar amounts of support from private sources (Kirsch in Pulley, 1999). Private fundraising will continue to grow in an atmosphere of declining public support for higher education. Whether it is deregulation, autonomy, or adopting policies more in alignment with diversified funding sources, the proponents of privatization shape their arguments in response to the acknowledgement that current public policy supports privatization and that they had best make sure they adopt institutional policies that will support and sustain them well into the next century.

The Move to Keep Privatization at Bay

The major theme that emerges among the arguments against further privatization is the argument that public higher education cannot sustain itself in an increasingly privatized environment. Specifically, the arguments opposing privatization cluster around these arguments:

1. Even though state appropriations are declining, the massive amount of state money that still exists for general funding of public higher education cannot be replaced through private fundraising or hikes in tuition at elite public universities, much less at the average public institution.
2. Private sources of revenue come with specific priorities attached that often do not match the general priorities and mission of an institution.
3. Increasing privatization will affect the historic role and mission of institutions.

Those who oppose further privatization or even the privatization that has thus far occurred see privatization as ruining the fabric of public higher education.

State Appropriations Will Not Be Replaced

Breneman (1997) uses the University of Virginia, well on its way towards privatization, as a case study to illuminate the argument against further privatization. He notes that though the state in 1995-96 only paid 21 percent of the total budget that still amounts roughly $120 million, a considerable sum. It would take $2.4 billion in additional endowment funds to produce the $120 million currently coming from the state on an annual basis. Another equally unviable alternative for the University of Virginia is to raise tuition by approximately $6,000 per year per student, assuming that no student needs additional financial aid to cover the costs of this tuition increase. Breneman (1997) notes that any policy aimed at supplanting state revenue with tuition money "will clearly reduce student access unless a significant amount of the increase were earmarked for need-based financial aid" (p. B6). Given this rough scenario for further privatization at a flagship institution of the state, the picture for institutions with less power and prestige in a privatized market is even bleaker. At SUNY Binghamton, the president says that the growing reliance on tuition has caused her institution to attempt to raise funds specifically earmarked for need-based financial aid, a difficult proposition given her area's depressed economic state (DeFluer in Blumenstyk, 1992). The majority of state institutions, indeed probably all state institutions, cannot continue the march toward privatization, as the magnitude of needed fundraising through tuition or private sources is an insurmountable wall.

The Strings Attached to Private Sources

Far from adding to the general fund as state appropriations do, private funds usually come with donor priorities attached. Blumenstyk (1992), in making the case against public fundraising, notes through her quotation of college presidents and vice-presidents of development, that donors have their own priorities and that they often give for "excellence and enhancement" rather than "lights and electricity and basic English instruction (Perry as quoted in Blumenstyk, 1992, p. A26). Yudof (1992) states that it's not as if those in charge of fundraising and dissemination of the money raised do not see the needs of the institution, its just that those priorities don't match with the priorities of outside contributors. In a private fundraising environment, certain schools within an individual institution, such as law, medicine, and business, might be able to better secure funds than other areas of the institution. This environment can create huge disparities in funding even within a single institution and may cause the liberal arts and libraries to suffer (Yudof, 1992). In a privatized environment, lack of support might cause program closures and even the closing of an entire campus. Blumenstyk (1992) notes that the University of Minnesota decided to close its agriculturally oriented Waseca campus based on cost. Without donors committed to a particular program or campus it might cease to exist in an increasingly privatized higher education arena.

Compromising the Historic Role and Mission of Institutions

Historically, state institutions saw it as their duty, rather mandated by the state or in practice, to serve the citizens of the state first through their focus on admitting residents of the state and conducting research intended to serve the state. The privatization of public institutions calls into question this historic role. With continued privatization higher education is now entering the era of the "privately financed public university" (Duderstadt in Breneman, 1997). Already college and university presidents are referring to their institutions as "state-aided" or "state-assisted" to emphasize their changing relationship with the state. Some even go as far as referring to their institution as state-located (Blumenstyk, 1992; Breneman, 1997). Just how much the state can expect from an institution in which it is a minority stakeholder is an open question. Blumenstyk (1992) notes that you have to question an institution's commitment to accepting a minimum of 70 percent of its class from state residents, as is the case in Michigan, as money becomes tighter and income from out-of-state tuition looks more and more appealing. It comes down to a "question of emphasis and ownership," with some institutions that receive a larger proportion of their funding from the state having closer ties to the local community and the state at-large (Coor in Blumenstyk, 1992. p. A27). As public funding continues to erode, this emphasis will most likely further shift away from serving the wider state community. Yudof (1992) notes that private sponsors and donors are not as interested in supporting the functions of higher education that the state should sponsor, such as cultural transmission across generations, preparing future teachers, or fostering learning and knowledge for its own sake. In a privatized environment these historic functions might die.

A related mission issue involves the level of access and the number of undergraduate programs that public higher education institutions can continue to provide in an environment of privatization. Over the last decade most public higher education institutions have experienced tremendous tuition increases that outpace current tuition increases in private higher education. Part of the St. Mary's model of privatization rested on a high-tuition – high-aid model that saw tuition double in five years. Other institutions that look to follow this example also plan to privatize, in part, through raising tuition. Though this might not initially lower access as is the case at right now at St. Mary's, without significant funds being channeled into financial aid, access will be considerably curtailed (Breneman, 1997). Another issue that could surface as institutions attempt to operate more like the private sector involves program closures in the race for money, and prestige. The University of Florida system Chancellor warns that schools "would slash undergraduate programs if left to their own devices" (Reed in Schmidt, 1996 p. A43). The argument against privatization comes down to the argument that further privatizing higher education through the replacement of state general appropriation funds, through private fundraising and tuition increases, will significantly alter higher education and cripple its ability to serve many, if not most, of the students it currently educates.

Implications of the Move to Privatize

Privatization cannot be ignored in current higher education discussions. It is not a question of whether higher education is becoming more privatized, but a question of how privatization fits into the mission and philosophy of the institution or the state's role in higher education (Eddy, Spaulding, and Murphy in Gilmer, 1997). Breneman (1997) says that these issues may be difficult to face, but "they are central to the future well-being of the country" (p. B8). Public higher education, like many other public enterprises, is in the process of privatization.

When looking at the quasi-private St. Mary's and its model of privatization, it might be easy to surmise that all other higher education institutions can follow this model. This was a unique situation where a particularly strong governing board, and even stronger president, lobbied the legislature for increased autonomy and deregulation in exchange for a cap on appropriations at current levels adjusted for inflation. President Lewis himself admits that this situation probably only worked because of the strong leadership and vision that he and the board provided (Berdahl, 1996; Lewis, 1994). It is hard to imagine a board of regents such as the California group or the Florida group undertaking such a task even with the help of their individual campus presidents and chancellors. The president of the University of Florida suggests that each individual campus have its own board to represent its interests (Schmidt, 1996). But, this proposition, even if it would assist in a privatized environment, brings with it its own costs. Even fundraising has become big business as exemplified by the fact that Ohio State now employs 110 people in its development office alone, and that office has grown 15 percent during its $1 billion campaign (Pulley, 1999). These enlargements in overhead don't directly contribute to the educational mission of the university, or even to the idea that privatization creates less government. Here it certainly creates more bureaucracy and overhead that takes away from any extra money that might be brought into the individual institutions.

It is not really clear that the St. Mary's model of high-tuition – high-aid can work widely across many institutions as is suggested by the success that St. Mary's has had. This particular public ivy and other state flagships have a unique market niche that best suits them for privatization, including tuition increases such as the one at St. Mary's (Gilmer, 1997). As Breneman (1997) notes, tuition can only be raised without affecting access if student aid also increases at the same levels. Though Breneman is a proponent of the high-tuition-high-aid model as an answer for schools as they move into the privatization era, it must be noted that student aid comes mostly from the same source that is currently cutting general appropriations. As more and more institutions are forced to move to the high-tuition - high-aid model, aid will most likely not keep up with tuition and/or tuition would need to be raised to unbearable levels for the full paying student in order to support the need-based student. In either scenario, as a widely used option, the high-tuition-high-aid model will most likely decrease access.

Even in a high-tuition – high-aid model, the individual student ends up paying more in absolute terms (National Center for Education Statistics, 1999). Certain students, notably minority and first-generation college students, are more susceptible to choosing not to attend college based on absolute price. SUNY Binghamton's president expects that as she raises tuition her 46 percent first generation student population will diminish (Defuer in Blumenstyk, 1992). Additionally, presidents in low-tuition – low-aid states credit that policy with keeping access open (Coor in Blumenstyk, 1992). Already the current political climate of private gain translates to large amounts of student debt, but with increasing privatization over the coming years this loan debt per student will only further increase. This realization has important implications for our young people as they enter adulthood strapped to what often can be huge amounts of debt that they may have little chance of repaying, depending on the field they enter.

The majority of the expansion in private giving has occurred in a time of economic boom. It is not clear that this is sustainable in a time of economic downturn and retrenching. As public higher education institutions formally move to what will probably be a quasi-private relationship. with the state and come to rely on these unreliable sources for a larger and larger portion of their annual revenue, serious problems may occur for individual institutions during more difficult economic times. So far in this move toward privatization, public higher education has appeared to deal with the cutbacks in state appropriations well. Yudof (1992) states the success at fundraising, and bringing in additional federal government subsidies, have actually helped higher education budgets to grow during this period, but that this has created a false security and a false sense that no harm has been done. Additionally, the debate over privatization has focused mainly on a few flagship universities and private ivies. It is not clear that the same privatization mechanisms will work at the average state school or in the community college environment.

Proponents of privatization stress the importance of winning decreased regulation and increased autonomy from the state in the process of individual institutions becoming more privatized (Breneman, 1997, Lewis 1994). Yet, as the discussion in Florida shows, becoming more privatized does not necessarily translate into autonomy and fewer regulations. Though the legislature warmly welcomes, and indeed, wants the public higher education system in Florida to become more self-sufficient, in 1995 they put a halt to a proposal that would have raised tuition at the state's universities by just 10 percent (Schmidt, 1996). The process of successful privatization seems a product of long and artful negotiation with both the state and the university working together to loosen various restrictions so that the higher education entity can better operate under conditions of greater self-sufficiency (Berdhal, 1996, Breneman, 1997, and Lewis 1994). Given the increasing demands that higher education find ways to fund itself, institutions will need to learn how to negotiate with the legislatures so that they can best maintain and continue to serve their student populations. The negative implications that could occur if higher education fails to look after its own needs and the needs of its students could topple the whole idea of public higher education.

Conclusion

Public higher education is in the midst of great change that could have serious negative consequences for students and individual institutions. Breneman's (1996) declaration that rather than ignoring this movement, public higher education had better become involved in crafting policy that will support its needs is well heeded by those interested in preserving public higher education. But, to step too quickly into privatization also signals a departure from the important mission and historical roots of higher education as a servant of the people. The state must come to realize that its support can never be fully replaced, especially in terms of some of the core public functions of higher education (Yudof, 1992). At the same time, public higher education must diversify its revenue base so that it can continue to grow and meet its mission. In this process, the public must come to understand "why it is so important to accumulate, transmit, and expand knowledge, even if that knowledge does not appear to have immediate, practical application" (Yudof, 1992). More than a challenge on the purse strings of public higher education, the privatization movement signals a vast divide between higher education itself and the public in terms of understanding the purposes of higher education. It is this divide that must be addressed if higher education is to effectively sustain itself for the coming generations.

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