

Rhetoric, Reality and Risks

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According to the authors, the coming of the market to higher education brings risks but also opportunities. Academics must understand that the issue is not whether one wants or does not want market forces to play a role in higher education—they are here. Rather the issue is how to structure higher education to meet society's needs—how to rebuild the unspoken but powerful compact between higher education and the public. —Editors

A Time of Change

This is a time of change in higher education—not only across the United States but around the world as well. Countries as diverse as Austria and Australia, Indonesia and Poland, or China and Denmark are making important shifts in the structure and organization of their higher education systems. Though details vary, there is a remarkable similarity in trends from country to country—namely, a move to shift higher education from operating in the public sector, with significant government support *and* regulation, toward operating in a more market-oriented, competitive mode closer to that practiced by private institutions in the US, with increased reliance on external revenue, more competition for funding and students, and less regulation.

The change under way is driven by a convergence of forces. They include the growing intensity of competition among traditional nonprofit public and private colleges and universities for everything from research funding and athletics to students and their tuition dollars. Another factor is the rapid increase in new types of institutions (corporate and for-profit degree-granting universities, as well as online and certificate programs). A third factor is the impact of technology, as individual institutions try to set themselves apart as innovative users of technology for the stated purpose of making learning more exciting, relevant and specific to their students' needs and skills, as well as more cost effective. As the struggle for funding and prestige escalates, more and more institutions

are reaching out for a global audience through virtual education, foreign outposts and institutional alliances. Finally, we see a growing interest of policymakers in utilizing market forces and the pressures of competition to improve performance and efficiency in ways that regulation has not achieved in the past. This is a trend that is spreading quickly to the far reaches of the globe—what some refer to as the “global rightward shift”—and it has now reached higher education.

Underlying all of this is a fundamental fact of life that should not escape our attention. Policymakers now understand that higher education plays a role of central importance in the success of modern society. For a state, or a country, to succeed in the period ahead, a greater share of the population will need a college-level education. This belief is now widely shared across the globe. Policymakers also understand, however, that this need can't be fulfilled without solving the vexing problem of the inexorable rise in the cost of providing higher education. In addition, success in both economic and civic terms requires that the quality of learning received by this expanding number of students be not simply maintained but, in certain dimensions, improved—hence, the growing interest of policymakers in the issues of quality and cost—what policymakers mean when they raise the question of “accountability.”

At the Futures Project: Policy for Higher Education in a Changing World, we have been studying the forces behind the push for higher education toward the market and the efforts at structural changes being put forth in response, both here and abroad. As we gathered evidence on each of the trends, we came to the striking conclusion that we had, in every case, underestimated the rate of change underway and its significance.

This trend to the market in higher education has engendered fierce debate. As the higher education community has become aware of the powerful forces driving this change, the ensuing discussion has been cast in polar terms—the value of change versus the importance of maintaining the status quo, or the creation of the entrepreneurial university versus the essential nature of the proven traditional university. We believe, however, that both sides in the polar equation are, in significant ways, out of sync with reality. A more helpful approach would be to recognize that change (in the form of the market as well as in other dimensions) is coming—in fact, to some degree it is already here. Whether we like it or not, whether we are prepared or not, it has entered the

academic scene. Recognizing this, the task for those of us concerned about higher education is to focus on the potential risks and the opportunities inherent in these changes. How can we minimize risk and maximize opportunity? How can we satisfy both what the universities want and what society needs?

Response to Change: Rebuilding the Compact

What academics must understand is that the issue is *not* whether one wants or does not want market forces to play a role in higher education—they are here. Rather, the issue is how will the market be structured to ensure that higher education will meet society's needs in a world that is changing? Will academic and political leaders work together to carefully design a structure that preserves what is special and essential to the nature of higher education? Can that new structure improve higher education in areas most in need of improvement? Or will the system, absent any meaningful thought, drift into a market that is poorly planned and lacking in foresight—a system that further erodes the public purpose of our colleges and universities?

The Futures Project has been examining the political and academic communities' response in different countries as they begin coping with these changes. Innovative models for structuring higher education are emerging around the globe. We would be well-served by an open, analytical debate among all interested parties about the values and risks of the differing approaches being taken. There is, in our opinion, a great deal at stake. Universities are not ordinary institutions in society; they are one of society's great inventions and occupy a special place in the functioning of society—a place that cannot be readily replaced by any other type of institution.

Over the centuries, a powerful compact took shape between higher education and the public it serves. As part of this compact, higher education is given great privileges: academic freedom; the right to teach and conduct research as we see appropriate; the right to debate controversial societal issues in an open and evidence-based format; public funding; tax exemption; and, perhaps most important, respect and trust. In return, society reaps great benefits: students learning from faculty who can challenge the conventional wisdom in their field or discipline; universities providing teaching that is not ideologically based; research that can be trusted; and support for many of society's activities, from economic development to the preservation and extension of cultural activities. Universities are seen as above the marketplace, not to be bought or sold. And

in recent decades, the task of providing social mobility has been added to the university's contribution to society. Thus, higher education today is seen as the entry point to middle-class life, an essential part of a democratic society.

However, over the last several decades this compact has become somewhat frayed. Institutions of higher education have begun to worry that public authorities, despite the growth in public support over the last two decades, are about to abandon higher education—at least financially. Political leaders, on the other hand, are worried that these institutions have become more self-interested than public-interested. Add to this the possibility that market forces, unless they are carefully structured, will likely further erode the public purposes of higher education. As experience in many fields has proven, markets are not always focused on public purpose, tending to serve well those with financial resources but to serve those who lack adequate resources poorly. Should this long-standing compact lose its hold on the public's support and understanding of higher education, it would be a huge loss.

Given the enormity of the changes under way in our system of higher education, this compact must be revitalized and reshaped to fit the circumstances that institutions and society are now facing: research and education are more important than ever; learners are more diverse; the need for resources is greater; and the information-based, globalized society is more complex. This changing dynamic means that students need not only a *better* education, but a *different* education.

In considering these issues, it is worthwhile to start by asking: “What is it that each party needs?” “What does society need?” “What do the universities, representing the free pursuit of scholarship, need?” Framing the questions in this way can lead us to a sensible relationship between higher education and the public.

What Does Society Need from Higher Education?

Government, acting on behalf of society, needs a measure of control of the role and mission of its public institutions. While it is clear that this control needs to be exercised in consultation with the universities and colleges themselves, clearly the public has a great stake in ensuring the existence of a diverse array of institutions—each fulfilling particular societal needs, but the sum of which makes a whole system. For example, community colleges, technical institu-

tions, four-year institutions and research institutions individually satisfy a specific societal need, be it for open access, adult education, skills needed by local employers, medical research or any of the other vital roles they fill. But left to themselves, these institutions have shown a strong desire to move toward a uniformity of approach, pushing themselves, step by step, in their quest for prestige on par with the research university. Community colleges want to become four-year colleges. State colleges want to become state universities, then research universities. Yet, this hardly serves the public's needs. If all institutions seek to emulate the research university model, the higher education system will lose its hallmark of diversity and society will lose the institutions that have embraced teaching and access missions. This pressure and the ensuing shift in institutional focus has been under way for some time, leading to a significant increase in institutional cost and a change in the structure of faculty rewards. Faculty time and commitment to teaching diminishes with the increased emphasis on research, leading to, among other results, less student contact with senior faculty.

The government also needs effective measures of accountability aimed at ensuring that those institutions that benefit from public investment perform according to society's needs, with a few key accountability measures being particularly critical. The need for student success in learning, the commitment to providing opportunity for underserved students, and fiduciary responsibility have become so important that governments can no longer afford to take for granted, without independent examination, that whatever goes on at colleges and universities is meeting society's needs. Colleges and universities have been resistant to externally-imposed measures of accountability in the past, such as examination of institutional costs, student assessments and graduation rates. But policy makers have grown ever more insistent on implementing some means of measuring and assuring high performance.

When academic and political leaders work together, accountability methods can be negotiated in ways that are effective and mutually acceptable. Successful cases of negotiated performance agreements can be found at St. Mary's College of Maryland, the Colorado School of Mines, and the North Dakota "flexibility with accountability" legislation. The urgent task is for higher education to be willing actors in these negotiations, or policy makers are likely to force a one-size-fits-all accountability process upon colleges and universities. We in higher education need to recognize that we do not now have con-

vincing ways to demonstrate to policymakers that we are serving society's needs—for example, demonstrating that students are learning the skills and knowledge they need. Rather than simply avoiding a dialogue with policymakers about accountability, a more effective approach would be for the institutions to singly or together create appropriate forms of assessment that also meet the state's needs.

What Does Higher Education Need from the Public?

Universities and colleges, on the other hand, need increased autonomy in some areas. They need flexibility and freedom from bureaucratic intrusion into the daily operation of the institution—what Robert Berdahl, professor emeritus at the University of Maryland, calls “procedural autonomy.” They need the right to operate efficiently and to make entrepreneurial judgments without undo interference. They need, as well, the assurance of stable support.

The Risks of a Market

Markets without careful structuring often produce unanticipated and unwelcome effects. For example, markets can create a situation in which institutional competition accelerates, and a “winner takes all” mode of behavior emerges.

To some degree, this is what happened in New Zealand just over a decade ago. The New Zealand government, anxious to dismantle an overly regulatory approach to the economy and to the operation of many social services, began to shift toward a more open and market-oriented approach to many of its public sectors. All levels of public education—elementary, secondary and higher education—were reshaped with this in mind. Universities, for example, were given the freedom to pursue whatever programs they chose. At the same time, private, for-profit institutions were authorized. The result was a growing competitive arena in which some of the better-known and better-financed public institutions, as well as some of the new private institutions, began to cannibalize the less-well-known and less-well-financed (and sometimes less-well-run) public universities. Within a decade, three out of 38, or 8 percent, of New Zealand's public institutions had effectively gone bankrupt, the salvageable parts of the three ultimately merging with other, more stable institutions.

Some would say that an occasional institutional failure is inevitable when markets are introduced, but that the gains are worth the price—that it's good to close a few institutions if they can't compete. However, by way of comparison,

if one were to translate this experience to the U.S.'s higher education system, the equivalent of 135 public institutions in our country would close. Imagine the public outcry. The Futures Project would argue that such a scenario is not necessary. The benefits of improved responsiveness can be achieved without the establishment of a "winner takes all" competition. What is needed, instead, is a system of competition that enhances the performance of *all* institutions so that all of them, except the least well-managed, succeed. The New Zealand government has recently concluded the same thing and is now attempting to rectify some of the flaws in their policies. However, reversing market forces is difficult to accomplish—all the more reason now why careful and thoughtful policy planning is so important.

It might be wise, therefore, to ask, "What are the potential risks inherent in the changes now under way?" What is it that policymakers and institutional leaders alike should be examining to prevent the down sides of the market from surfacing?

Will Autonomy Equal Less State Support?

One issue that has been raised—repeatedly—is the danger that greater autonomy from the state will in time lead to less fiscal support. As public institutions become more independent, closer to resembling their private university counterparts, will state governments feel less of an obligation to provide financial support? Will states leave the financing of higher education to families and students? To some degree, this did happen in the case of New Zealand: After being given the autonomy to do so, the public institutions quickly raised tuition to significantly higher levels, while government support decreased. It is hard to see, however, whether this was a function principally of moving toward market forces or, instead, part of a much broader move toward the introduction of tuition across the globe. Country after country that traditionally provided free higher education to an elite group of students has begun introducing some form of student fees—Germany, the United Kingdom and Australia being only a few of the examples.

The experience of the U.S. higher education system would indicate that the movement toward greater institutional dependence on family financing—i.e., higher tuition—cannot be blamed on growing autonomy from the state and a resulting reduction in the commitment of the state to provide financial support. In this country, tuition and other forms of student fees have been rising

steadily, sometimes sharply, for 40 years. But during this four-decade period, state support of higher education has grown in parallel—even on a per-student, after-inflation basis—with the exception of those few years during which serious recessions have either leveled or actually reduced state appropriations. This was certainly the case in 2003, as a number of states grappled with their worst state budget deficits in a long time.

Higher education in the United States over the last two decades has not exactly experienced what is often portrayed (i.e., colleges and universities, starved by their respective state governments, desperately searching for new revenue streams in order to survive). Rather, this is a story of institutional success in finding, and spending, more and more money—more in state support, more in family support, more from fundraising and more in research dollars—with the result being that institutions, instead of using the added revenue to rein-in tuition increases, have undertaken even more activities.

In many states today, autonomy is being proposed as a substitute for funding. In Texas and Oklahoma, for example, state institutions received autonomy over tuition-setting in 2003. But this is not happening because the states are unwilling to fund higher education; rather, it's because at the moment they are unable to fund it. The extreme example—indeed, an anomaly—of a policymaker offering autonomy to colleges and universities primarily for financial reasons occurred in South Carolina in December 2003, when Governor Sanford announced a proposal to allow public institutions to privatize as “a way to give certain schools the flexibility they want while saving the state money at the same time.” But even this proposal is widely seen as posturing by the Governor and was described by the Governor's own spokesman as a “‘tactical’ move designed to foster discussion on how best to target higher education resources.”

Tuition and fees on the rise

In looking ahead, there is no question that as states propose sizeable increases in enrollment in order to meet the new demands on our economy and civic life, state governments will turn toward student funding (that is to say, toward higher tuition and more fees) to pay for part of the cost of higher education. Is this good or bad? Surely students should pay some of the cost, but how much is too much? Is there a danger that tuition might have already risen too high in the United States? Hasn't this resulted in decreased access and excessive debt

for low-income students? These are serious issues that deserve intense public discussion.

This same discussion about “user pays” is going on elsewhere in the world—often with even more intensity than in the United States. In Europe, the movement from no tuition to paying a small fee is raising deep concerns within society, and particularly among students who, once admitted, have been given a free ride and are reluctant to give up their privileged position. The need to spread access to a broader share of the population, however, is forcing governments to change these policies. If one looks at the experience of the American model, the danger is *not* that states will drive universities toward higher tuition. Rather, the danger is that universities and colleges, having tasted the previously forbidden fruit of tuition increases, will have insatiable appetites.

We are now beginning to see some of the worst side effects of the market. For example, we are seeing increasing pressure to shift financial aid *away* from providing opportunity for the less advantaged students and *toward* recruiting “better” students—those who will either improve institutional rankings and prestige, or those who can pay more tuition. Research on the Hope Scholarships in Georgia, designed to keep Georgia’s “best” students at in-state institutions, has revealed that most of the scholarship money has been flowing to students who were planning to attend college anyway. So the added money has made it that much easier for reasonably well-to-do students to attend college. However, this scholarship program has not done much to expand the opportunities of those prospective students who would not be able to attend college without financial assistance.

The rise of external revenue sources

Clearly, however, one of the outcomes of this shift toward market forces is escalating interest in external revenue sources. Compared to other countries, American institutions have always excelled at tapping into new sources of funding. Most public institutions in the U.S. depend not only on state appropriations but on tuition income, fundraising, university research and sometimes other forms of income generation such as corporate training. In our opinion, much—but not all—of the push to search for new revenue sources could result in favorable outcomes.

Fundraising, for example, is in general a positive force in terms of the development of a responsive and responsible institution. To convince would-be fun-

ders—whether individuals, foundations or corporations—to provide resources to the university requires a compelling argument as to what the funding will do. While the interests of funders are not a direct surrogate for public need, the concerns of these funders are generally closely related to certain aspects of public need. For example, common fundraising goals often include adding resources to an institution's student aid budget or constructing needed buildings.

Non-traditional students—e.g., part-time, working adults—have proven to be a lucrative market for institutions. The United States has been a leader in the education of older students or non-traditional students who, in other countries, would typically be denied such access. A great many of our universities and colleges tapped into this market because it offered a solid, new source of revenue that could contribute to the overall stability of the institution.

Continuing education programs in university upon university contribute a stream of funding to the broader university, thereby channeling funds to departments that cannot easily generate the resources that they need. Here again, the market has proven to be a great success—providing sufficient inducement for institutions to enter into the education of older students, and, in turn, greatly aiding the furtherance of society's growth and sophistication.

Success and danger in the funding of research

University research is another area in which the search for revenue has produced outcomes that have been of great benefit to society. Specifically, our federal competitive, peer-reviewed grant system has proven to be of enormous value in the funding of research, so much so that considerable effort is now being expended in Europe to replicate not only the amount of funding in the American system but the form of funding as well. Today about 26 federal agencies provide research grant funds. The system has proven resistant both to political influence and to the continuous funding of well-established but no longer relevant research efforts (the latter being a major problem that has plagued government laboratories around the world). If the quality of a research team's effort falls, grants are no longer received, the team is disbanded, and new researchers with better proposals take over the funding. The government can alter the general course of research by, for instance, putting more funding into studying cancer or new energy sources or whatever subject the government sees as critical. Nevertheless, individual researchers are, in fact, able to exercise a great deal of initiative. The result is a carefully controlled market for research funding, structured in a thoughtful and workable way.

The growing need to find new research revenue has, however, introduced a danger in the form of a new player in this area: corporate sponsorship of research. Corporations, in return for their support, are increasingly asking for control over such issues as the publication of research findings. Universities, feeling the pressure to compete, have often acquiesced. Now is the time to create a new structure in order to prevent this kind of corruption from further undercutting the objectivity and integrity of university research.

How Far is Too Far? The Drift Away from Public Purposes

At the Futures Project, we've concluded that there is significant value for both the society and the universities in the development of multiple funding sources that are reflective of the growing influence of competition and the market. Having multiple sources will mean greater stability for the university or college, as well as new forms of engagement between the university and the society. The danger, here as well, is of going too far. If the search for new forms of revenue becomes too intense, it will supersede attention being focused on providing service to the public. An interesting example of where this may actually turn out to be the case is the change now under way at the University of Virginia's Darden Graduate School of Business Administration. The Darden School has been increasingly successful in the development of an executive training program that has become both a major source of revenue and a major source of interest to the faculty (who find that they also profit from connections that lead to consulting arrangements). As more and more of the business school's revenue has been coming from external sources such as the executive training program, many have questioned why the business school remains subject to the constraints of being part of a public university. The result is that the Darden School has reached an agreement with the University of Virginia and the state to transition to a private funding model, relinquishing almost all of its public funding and becoming a private business school operating within the public realm of the University of Virginia. Following suit is the University of Virginia's School of Law. Both institutions cite the annoyance of dealing with a volatile and intrusive state government. The problem, of course, is an almost certain loss of focus upon the public needs of the people of Virginia.

The very nature of the university—a nature historically seen as “above the marketplace”—is endangered by the intense and aggressive search for new revenues. There have been, for example, a number of efforts undertaken to create organizations within the university that will sell intellectual property developed

by way of research or instruction. Here again, the danger lies in going too far. The case of Fathom, Incorporated is illustrative. Columbia University set out to create a for-profit entity that would sell the intellectual property found in its course work, library materials, etc. A number of other universities, both here and abroad, joined in the effort. In and of itself, the idea is not necessarily a violation of any academic tradition. However, the difficulty is that if this type of activity becomes ingrained, the ancient tradition regarding the academic world's openness will begin to disappear. Research and scholarship depend on the exchange of ideas among universities. Therefore, if ideas are protected in the name of a potential generation of profit, scholarship and research will dry up and morph into an entirely different tradition. As it turned out, Columbia's Fathom idea was not successful and the entity was shut down. But the problem is still with us.

The patent programs at some of the best-known research universities, for example, serve a public purpose by assuring that the fruits of research end up in commercially-available products (private companies are not likely to invest in the enormous expense of product development and clinical trials unless there is some degree of patent protection as part of the deal). But universities are growing increasingly territorial about their patents and the resulting revenues, acting more and more like secretive commercial outfits.

The market has many potential pitfalls. Searching for revenue sources can be very disrupting. Absent adequate structuring of the market, competition can become destructive. The pressure to compete—unless there are sufficient safeguards—can lead to low quality and a lack of differentiation. All of this argues for great care in the development of the market.

The Opportunities in the Market

With some risk control, markets have positive possibilities as well. Because of the instinctive concern that a market will damage higher education's traditions, the possibility of performance improvement is often overlooked. Already noted is the superb record of American university research, a truly great triumph. It is interesting to note how progressive, performance oriented and quality focused American university research is compared to university teaching, even though exactly the same faculty are involved in both activities. When our system of research was proposed in 1945, university presidents were almost uniformly resistant to the idea, feeling that the competitive forces being

unleashed would prove disruptive and that federal influence over the university would rise. Yet, the success of our university research system is a reminder of the rewards that can come from the proper structuring of a competitive system.

Revealing the flaws in the system

Markets can also help to focus attention on the flaws and weaknesses that exist—those often overlooked in a more bureaucratically structured system. In higher education, there are several examples of performance being less than what is needed by society. An obvious example is the performance of teaching the subjects of math and science. Report after report has demonstrated that the manner in which mathematics and sciences courses are typically taught in the early college years is counterproductive and boring. Even students who have done well in high school often give up their interest in these fields after taking these introductory courses.

As a country, we found a way to overcome this problem—and the resulting shortage of adequately trained students able to go on to graduate-level studies—by recruiting abroad. For decades, many of the top mathematics and science students in Taiwan, China, India and South Korea have come to the United States, often to stay and participate in the great explosion of scientific and technological advancements that our country has experienced. These other countries are now realizing the importance of such students to their own economies and have begun determined efforts to build more attractive Ph.D. programs and to create well-paying opportunities in order to entice graduates to remain at home. Other nations are no longer willing to let these valuable graduates go without a fight. The competitive market for these students has exposed a flaw in the American system's approach to math and science, as Ph.D.s in those fields are steadily flowing from the United States back to their home countries.

Another example of this is in the field of teacher education. For years, school districts have complained that the mode and quality of instruction of teacher candidates have not been adequate for the increasing demands teachers face—as standards and assessment, racial diversity, classroom technology and a host of other new challenges push teachers to approach teaching in new ways. For the past decade, political leaders have joined in this chorus, frustrated that the higher education community seems oblivious to the need for their help in bringing about school reform. Two new trends are now increasing the compe-

tition faced by traditional university-based teacher education programs. First, many large school districts are beginning to run their own programs. Second, a number of for-profit institutions have begun aggressive efforts to recruit and train teacher education candidates, promising programs much more closely linked to the needs of the schools. Here again, the pressure of the market is exposing the very flaws that have repeatedly gone unaddressed in a more structured system.

One of the reasons that this exposure helps to effect change is that it often empowers those people within the institution who recognize the problem and are anxious to bring about change, but who are at the same time frustrated by internal resistance. It also allows institutional leaders and faculty members to raise questions of quality and the appropriateness of the instructional program, in addition to encouraging movement toward solutions. In the absence of the problems being exposed and without the danger of losing the “customers”—that is the students—to other competitive organizations, it is often hard to get the necessary traction for effecting change.

Improving teaching and learning

For many reasons—some noted above—universities need to engage in a serious effort aimed at improving pedagogy. As technology becomes more and more sophisticated, easier to use and less costly, the opportunity to radically improve teaching and learning becomes ever more present. Here again, the power of the market is likely to be influential in helping institutions overcome their natural reluctance to invest the time, energy and risk of failure in trying something new in teaching. Universities will find themselves forced to make changes simply to prevent falling behind their more aggressive and more effective competitors. It is already evident that some of the most skillful users of the latest technologies are for-profit institutions, and the pressure exerted by those institutions will be most helpful in moving the broader university world in the direction of progress.

Structuring Tomorrow’s Higher Education System

Here, in summary, is our argument: The market as a mode of organizing higher education is increasing in significance in the United States, in Europe and across the rest of the world. It can be a force for positive change—pushing colleges and universities to assess their performance, correct their shortcomings

and clarify their respective missions. But it can also be a force that undercuts higher education's focus on its public purposes.

Rather than drifting into some unexamined structure or, by our lack of engagement, leaving the field to those of an ideological bent, we need to actively address the need for policies that will structure the market so as to effectively serve the critical public needs.

The changes now under way place three responsibilities on those of us in the academic community. First, the growing importance of higher education and the pressures of the market are revealing those areas where higher education fails to meet society's needs. We have tended to gloss over these deficiencies. The sensible course is for us to openly acknowledge our flaws and begin the never-ending process of improvement.

Second, the market is here, and new policies are needed to ensure that it is structured in such a way that it will both serve society and avoid damaging higher education. We need to join in the debate and help policymakers construct a sensible system—not sit on the sidelines longing for a golden past.

Third, higher education is special, one reason being that it is focused on serving the public. We need to carefully re-examine just what it is that the public does indeed need. We know already that these needs are changing and so, therefore, must we change. And finally, we must commit ourselves to rebuilding and updating the valuable compact between the American public and its higher education system.

