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Introductory Remarks: Reflections on Privatization in Higher Education

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ISSUES IN HIGHER EDUCATION

INTRODUCTORY REMARKS: REFLECTIONS ON PRIVATIZATION IN HIGHER EDUCATION

Privatization is both a rallying cry and a fighting word for university people. Like most symbolic words, privatization has multiple meanings and encompasses many activities. In major public research universities, much of what we do is already privatized, if by privatization we mean not dependent upon state tax dollars. Student tuition is a private market transaction, even if it is often highly regulated in ways that resemble utility rates. Grants and contracts, even when they come from state or federal sources, derive from a marketplace that bears all the signs of private competitive transactions. Gifts to endowment or annual funds also participate in the market, for the funds derive from private individuals, and universities compete along with other charitable organizations for this largess. Every university with a hospital and medical school operates daily in the brutal and ferocious market of health care, which is highly regulated, endlessly complex, and hotly contested. Any university running a major athletic program competes for audience, logo revenue, endorsements, television time, and the coaches and players who make college sports successful.

If these were not enough examples, every major university runs a variety of auxiliary enterprises that range from parking and food services to bookstores and patent and royalty businesses. Almost all of these enterprises function in the marketplace; they must break even or better, while operating in competition with other private and public enterprises. Universities sell rights to agricultural products, run auxiliaries to support the cost of chemicals in our laboratories, and charge fees for a range of services provided to our customers. We already live in the marketplace. A conservative estimate would put over two-thirds of a major public research university's business in the competitive marketplace.

So what is the issue?

The issue, of course, is regulation and the power of the state to control the economic terms of trade for public higher education. While we may wish to believe that education is a noncommercial public good, in fact, higher education produces a high demand for and a highly differentiated set of products delivered into marketplaces that suffer from extremely complex forms of regulation. Private and public institutions attempt to distinguish themselves one from the other on various attributes, but all are publicly subsidized, albeit in different ways and with different consequences. Private institutions receive state subsidies for tuition. Their federal grants, contracts, and foundation awards derive from tax-free income. Gifts to private universities carry tax benefits for the donors. These and other income streams come entirely or partially from direct or indirect subsidies from local and federal tax dollars. Public universities, of course, receive even more support from the tax base. Their tuition subsidies reach higher levels, they receive significant support for plant and equipment, and their undergraduate and part of their graduate and research programs rely on state tax dollars.

The ubiquity of local and federal tax dollars in American higher education carries with it a host of regulatory functions from tuition controls to curricular interventions, from research restrictions to personnel rules, from building standards to price controls. No university, public or private, escapes regulation, but the amount of control appears to be closely related to the level of state subsidy.

This, then, leads to the key question of privatization. If we mean by privatization that the government will get out of the business of regulating universities, then we also need to contemplate the possibility that the state will get out of the business of subsidizing higher education. It is not practical to imagine that government at any level will give up its powers of regulation while maintaining funding levels. The state will regulate what it pays for, and as long as it pays for tuition subsidies, tax breaks for gifts, and research grants, federal and state governments will continue to regulate not only what they fund but also related activities that they do not fund.

Universities pursue various strategies to minimize this interference. They know that overregulation often results in inefficient operations and severe competitive disadvantages relative to less regulated institutions. One technique sees universities offloading activities into the private sector, essentially outsourcing university functions to an unregulated marketplace. A classic example of this is the University of Florida computer requirement. Given the burden of state regulation and highly restrictive price controls, the university met the need to provide computing to its students by requiring students to use computers and structuring a set of private market alternatives to support student computer purchases. The university could have created a fee, purchased the computers, delivered them to the students, and supported their use. The regulatory environment of Florida made such an option impossible, and so the university simply privatized its computer activities.

What resists privatization, of course, is the core curriculum. Here the university itself opposes privatization, for it is in the undergraduate and graduate core curriculum that the university establishes its claim to excellence and derives its baseline income. The core curriculum is the most highly regulated by the state and nongovernmental accreditation agencies, also supported by government, and it creates the core quality of the university that, in turn, establishes the base from which privatization of marginal activities can occur.

Faculty, of course, demand control over this core business of the university, and themselves regulate the content and structure of the university's core academic business. Even here, however, the university finds ways of injecting private marketplace notions into the holistic concept of a university education. Professional schools of law and medicine, for example, set higher tuition than the core arts and sciences programs. Different disciplines, while in theory charging the same amount for a degree, nonetheless impose additional fees for supplies, services, internships, travel requirements, and other elements of their programs that effectively create differential price structures to reflect the different costs.

In short, we have already answered the question of privatization. We are all doing it as fast and as effectively as our regulatory environment permits. Privatization challenges some traditional university beliefs about protecting the integrity and independence of scholarship from the ravages of the marketplace. Yet current experience demonstrates that the greater threat to academic integrity comes not from the marketplace, but from the over-regulation of university functions by the state and state-supported accreditation agencies, and the decline in financial support from all sources for university work.

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