NEA HIGHER EDUCATION RESEARCH CENTER

Update

VOLUME 10 • NUMBER 2 • MARCH 2004

Higher Education and Privatization

INTRODUCTION

The current political climate is sympathetic to the privatization of a broad range of public services. A Council of State Governments report found that 59 percent of state agencies had privatized some function in the past five years and 55 percent thought that privatization would increase in their state in the next five years.[1] The top three reasons cited for increases in privatization were cost savings, increased support from political decision makers, and greater flexibility. This willingness to privatize public functions extends to higher education.

WHAT IS PRIVATIZATION?

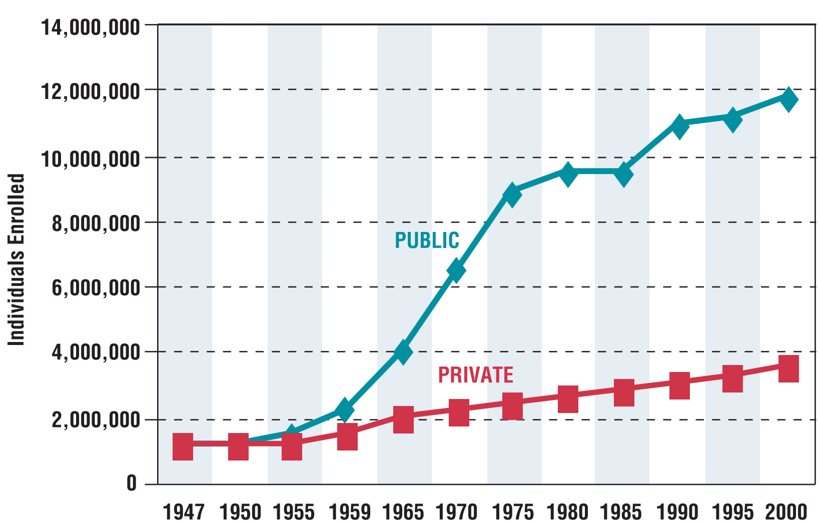
In its narrowest meaning, privatization suggests a movement away from public financing and toward private financing. For higher education, the term includes a range of activities taking place on campus. Generally, in the name of financial necessity, colleges and universities cut services, undertake aggressive outsourcing, reduce the number of regular tenured teaching slots, and increase tuition. This takes place against a background of state-defined accountability standards as legislators take a more assertive role in setting education goals. Privatization includes more centralized decision making, declining acceptance of academic norms, loss of faculty autonomy, and developing private funding sources.

The trend toward privatization has been associated with an historical shift in the population served by higher education. Traditionally, colleges and universities were understood as experiences for an elite few, but, increasingly, they have become a normal part of the educational experience of larger and more diverse student populations. This evolution from elite to mass accessibility has resulted in higher education more closely resembling a public utility than an experience reserved for privileged elites. Figure 1 shows higher education enrollment growth in the public and private sectors since 1947.

At the same time enrollments were climbing, data from the National Center for Education

Figure 1

Post-World War II higher education enrollment growth



SOURCE: National Center for Education Statistics. 2002. *Digest of Education Statistics*. Washington, D.C.: U.S. Department of Education. Table 172.

Statistics show a decline in the number of liberal arts degrees awarded. For example, since 1970 the number of degrees earned in English and literature dropped by about 13,000 and the number of degrees in foreign languages slipped by 6,000. At the same time, more vocationally oriented degrees, in fields such as business, accounting and, more recently, computer science and mass communications, are flourishing.[2]

REDEFINING HIGHER EDUCATION'S VALUE

The shift to higher education as public service has resulted in legislators treating it like any other public utility: they demand the most effective service at the most affordable price. The language used to define "effective" and "affordable" derives from a business model for generating value, where value is linked directly to short-term monetary gain. This redefines the traditional understanding of higher education's value, where value is linked directly to the long-term welfare of communities made up of informed citizens actively participating in the democratic process. This latter definition has not only kept U.S. taxpayers supporting higher education across two centuries but has made the American system both model and destination throughout the world.[3]

PRIVATIZATION'S IMPACT

Privatization increases the pressure on traditional higher education institutions to operate more efficiently, to pursue goals set by outside interests, and to market more aggressively. While such efforts can help an institution financially, they can also weaken collegial, knowledge-driven academic culture through the adoption of management practices more typical of business culture. Practices such as contracting out services and restructuring workforces represent market-driven attempts to control payroll, diversify and stabilize revenue, and shift costs to consumers.

Contracting out services. Colleges and universities use outside vendors to provide a wide range of services. Figure 2 shows the percentage of reporting institutions that indicated they outsourced a particular function in 2002.

Most colleges indicate they are considering outsourcing even more services. The top five reasons colleges cite for contracting outside vendors include financial (e.g., cost saving and revenue generation), quality improvement, equipment (e.g., technological expertise), human resources and staffing solutions, and safety/liability measures.[4]

Restructuring the workforce and controlling payroll. Most new full-time faculty positions in higher education are not tenure-eligible. According to a recent study, only about one-quarter of new hires receive appointments to full-time tenure track positions. One-half of the new hires are part-time, and the remaining quarter started in non-tenure tracks. The report suggests that college teaching is running the risk of becoming a contingent workforce.[5] One indicator of the expanding contingent work force in higher education is this increasing use of part-time faculty. Over 40 percent of higher education faculty work part-time. That translates into 378,000 part-time faculty members (excluding graduate teaching assistants) out of 919,000. Estimates suggest that, on average, part-time faculty members are paid $2,700 per class. This is consistent across different types of colleges and universities.[6]

Figure 2

Percentage of colleges and universities outsourcing particular functions

Program	Percentage
Vending	76.4
Food Services	63.3
Laundry Services	51.7
Bookstores	40.8
Concessions	39.0
Travel Services	39.0
Printing	22.5
Entertainment	14.2
Day Care	13.9
Health Services	12.4
Safety, Security	9.4
ID Card Services	6.0
Post Office/Mail Services	5.2
Computing Services	3.7
Conferences	3.4
Parking/Transportation	3.4
Physical Plant	3.4
Housing	3.0

SOURCE: Wertz, Richard D. 2000. *Issues and Concerns in the Privatization and Outsourcing of Campus Services in Higher Education.* New York, New York: National Center for the Study of Privatization in Higher Education.

Contingent and part-time faculty members are less likely to participate in management decisions. Shared governance is a system in which those affected by the decisions participate in the decision making. In colleges, shared governance includes governing boards, administration, and faculty, with the participation of staff and students. This approach recognizes the contributions and requirements of all members in a group consensus process. The results of this approach may include empowerment, equal partnership, and a vested interest in successful outcomes. This is at the heart of the academic tradition and supports the faculty's role in shaping institutional policies and programs. Erosion of faculty participation in decision making is one possible result of restructuring the higher education workforce.[7]

Diversifying revenue streams and stabilizing income. In the past, education was place bound. With few exceptions, students had to come to campus to take classes, and colleges could count on maintaining the market because of the huge development costs necessary to build a new campus. That geographic protection is challenged by the maturation of computer technology and the Internet, making it possible to deliver college courses anywhere at any time. More typically, technology supports a hybrid model of web-enhanced education that allows a college or university to rent a classroom, hire some part-time faculty members, and deliver a canned class at a very low price to whomever enrolls. These colleges centralize library holdings, student records, student aid processes, and other administrative functions on a web-based system. The price of entry into a new higher education community is negligible.

The portable college can offer courses and programs with a large potential enrollment, targeting students who otherwise might attend traditional colleges in the region. Many, but not all, such colleges are operated as for-profit enterprises. They receive no funding from states, but utilize student aid packages to attract students. While portable colleges will not replace traditional colleges, they will and do compete for students among place-bound colleges. This new class of institution adds to the market pressures on traditional higher education institutions.

Contract training and other entrepreneurial efforts represent additional strategies, not only for diversifying revenue streams but also for stabilizing income. These efforts include counteracting unpredictable state support by shifting the focus of institutions away from the core educational mission toward efforts at revenue enhancement. Again, the priority of economic objectives displaces the academy's traditional goals.

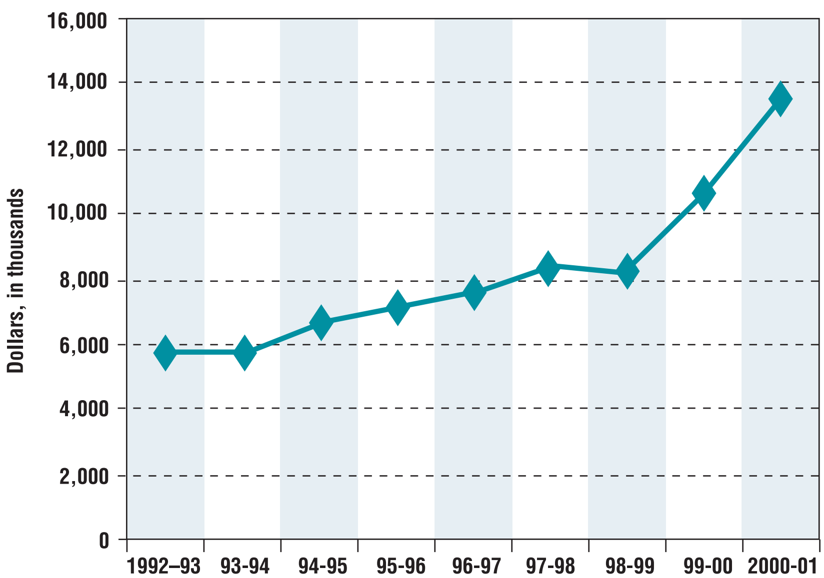
The effect of shifting attention toward other revenue sources is to take time and attention away from the core functions of the institution. Figure 3 shows the growth in such alternative sources of revenue. These other forms of income include all the incidental income raised by an institution, but do not include traditional revenue from government, tuition, endowment, and traditional operations such as dormitories.

State funding of higher education is erratic, going up in good years and dropping in bad. Public colleges and universities cultivate other streams of income to compensate for the shrinking of state support in bad years.[8] Figure 4 shows the most recent two-year change in state support for higher education. Between 2001 and 2003, higher education lost state support in twenty-nine states (***bold italics***).

Shifting costs to consumers. We are reallocating public funding for higher education away from support to institutions and toward individual student aid. The admissions office, business office, and student aid office have grown in importance on every campus, and business concepts and their expression—such as market share, efficient pricing, and the student as customer—have crept into the enrollment

Figure 3

Growth in non-traditional revenue among higher education institutions: 1992–93 to 2000–01



SOURCE: Integrated Postsecondary Education Data System. Annual. *Finance Survey Data.* Washington, D.C.: U.S. Department of Education.

Figure 4

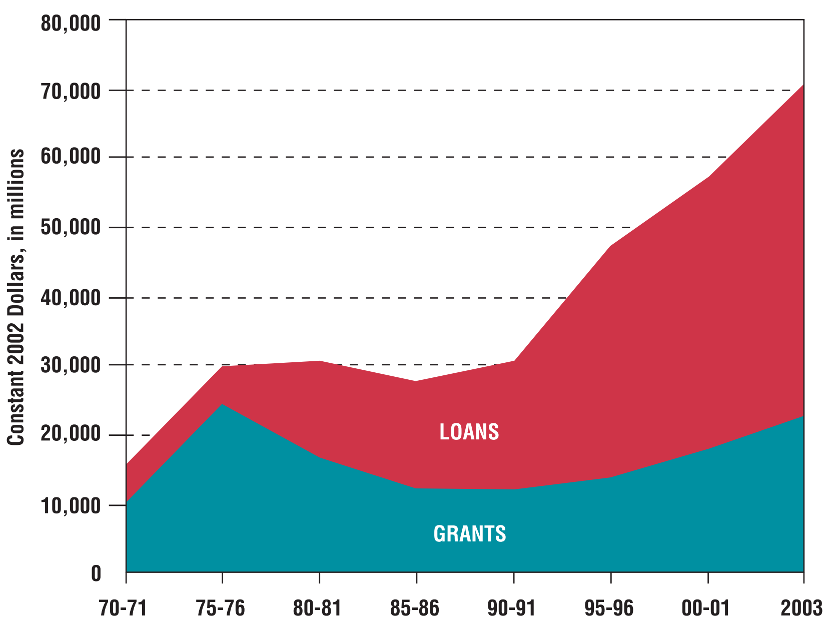
Two-year change in state support of higher education, 2001-2003

STATE	CHANGE	STATE	CHANGE	STATE	CHANGE
Alabama	4.3%	Louisiana	10.1%	***Ohio***	***-0.2%***
Alaska	6.1%	Maine	0.0%	***Oklahoma***	***-8.2%***
Arizona	***-2.8%***	***Maryland***	***-11.1%***	***Oregon***	***-11.4%***
Arkansas	5.7%	***Massachusetts***	***-23.0%***	***Pennsylvania***	***-3.8%***
California	***-9.6%***	***Michigan***	***-7.9%***	***Rhode Island***	***-0.9%***
Colorado	***-21.8%***	***Minnesota***	***-6.7%***	***South Carolina***	***-20.4%***
Connecticut	***-0.4%***	Mississippi	4.2%	South Dakota	6.4%
Delaware	2.6%	***Missouri***	***-14.0%***	***Tennessee***	***-2.4%***
Florida	5.4%	Montana	0.5%	***Texas***	***-5.6%***
Georgia	***-2.1%***	***Nebraska***	***-3.4%***	***Utah***	***-4.0%***
Hawaii	14.2%	Nevada	39.2%	Vermont	7.7%
Idaho	***-2.5%***	New Hampshire	4.6%	***Virginia***	***-17.8%***
Illinois	***-6.9%***	***New Jersey***	***-1.2%***	***Washington***	***-3.5%***
Indiana	3.0%	New Mexico	6.5%	***West Virginia***	***-8.7%***
Iowa	***-4.2%***	New York	3.1%	***Wisconsin***	***-6.5%***
Kansas	***-3.8%***	North Carolina	0.2%	Wyoming	21.6%
Kentucky	7.3%	North Dakota	0.0%	**TOTALS**	**-4.0%**

SOURCE: Retrieved January 11, 2004, from *Grapevine*, the website of Illinois State University's Center for the Study of Education Policy, at http://www.coe.ilstu.edu/grapevine/

Figure 5

Growth of state and federal student aid since 1970



SOURCE: The College Board. 2003. *Trends in Student Aid*. New York, New York: author.

conversation. Loans have increased as an overall share of the student aid package, which can serve to make students acutely aware of the need for immediate employment upon graduation to pay them back. Because it can affect students' institutional choices—as well as their decisions about whether to pursue a liberal arts education—this dynamic amplifies the increasingly market-driven character of higher education. Figure 5 shows growth trends in state and federal student aid.

TACTICS FOR PROMOTING PRIVATIZATION

Higher education's evolution into a publicly funded, increasingly necessary event in people's lives has made it easy for detractors to criticize, and operational cost is their primary focus. The argument is made that goals must be set for higher education institutions and that such institutions must measure up to those goals or be held accountable. In the name of "accountability," some state legislatures have begun tying public funding directly to an institution's performance in measuring up to prescribed goals.

This definition of accountability changes the locus of decision making from internal to external groups. With their economically determined vision of higher education, such legislators want higher education institutions to demonstrate accountability in response to state fiscal needs and not to the needs of the academy. A recent NEA report confirms that the propensity of state legislators asking for more accountability from public colleges and universities is bipartisan.[9]

According to an annual survey, all but four states (Delaware, Nevada, New York, and Rhode

Island) require some form of performance reporting from higher education institutions. The number of states that link funding to performance has declined from 18 to 15 due largely to recent state declines in support. The 15 states with performance funding in 2003 were:

Colorado	Ohio
Connecticut	Oklahoma
Florida	Oregon
Idaho	Pennsylvania
Kansas	South Carolina
Louisiana	South Dakota
New York (SUNY system only)	Tennessee
	Texas

Five more states reported that they are likely to adopt performance funding (Alaska, Missouri, New Mexico, Utah, and West Virginia).[10]

While performance funding has not been particularly successful, it does put consistent pressure on public institutions to operate with consideration for very specific external requirements. The demand to show progress on measurable outcomes overrides the non-measurable outcomes of higher education. Performance funding has the potential to distort the operation of institutions to maximize more easily measured, vocationally useful functions, while ignoring the less easily measured liberal arts activities.[11]

Proprietary sector growth. Proprietary colleges are growing at a rapid rate. They still represent a small share of the education market, but they are growing at a time when public colleges and universities are being starved financially due to large state and federal budget deficits. According to the National Center for Education Statistics, the number of degree granting proprietary institutions rose from 316 to 721 between 1990 and 2000, a 128 percent increase. These proprietary colleges are the pure expression of privatization in higher education. Typical attributes include the fact that they:

- are market driven;
- are profit sensitive;
- rely on strong marketing efforts;
- prize centralized decision making; and
- weaken the collective voice of faculty.

The narrowly focused institutions in this sector represent a growing competitor for institutions with a broader scope. The former are smaller and more specialized than the latter, and they offer programs of study that lead to specific occupations. They do not provide the traditional broad range of student services and programs, such as athletics, residence halls, cultural events, and recreation facilities. Nor do they undertake research or provide community service programs. As a result, they are cost-efficient and provide a minimal range of educational offerings.

CONCLUSION

The emphasis on accountability, market financing, and a political belief in the ineffectiveness of publicly managed enterprises has combined to challenge the underlying assumptions upon which colleges and universities operate. The facts that college graduates get better jobs than those without a college degree and that society benefits from having well-trained, engaged citizens have been traditional and successful selling points when colleges and universities ask for public support.[12]

Public funding of higher education is grounded in taxpayers' willingness to support higher education because it contributes to the overall economic welfare of entire communities and, indeed, the nation. Yet state legislators, applying a business model of return on investment, are demanding more proof of "effectiveness" because they perceive traditional higher education as inefficient. The autonomy that has allowed American higher education the freedom to evolve and diversify may be restricted in the name of accountability. The autonomy that has enabled American higher education to become the model for the world[13] —a world where students aspire increasingly to attend American colleges and universities—is being challenged by private interests in the name of accountability. Indeed, the rising cry for accountability is the principal tactic market-driven privatization interests use to challenge higher education.[14]

The evidence is compelling that the current privatization of higher education will continue.[15] As state legislators continue to perceive higher education as a public utility, the public commitment to basic research, open debate, academic freedom, and faculty autonomy will continue to be minimized. Replacing full-time teachers with part-time faculty and outsourcing support tasks to contractors are likely to weaken the collegial environment of higher education institutions.

The most probable outcome of the confluence of these trends is a greater bifurcation of higher education, wherein some institutions provide a time-honored liberal arts program to conventional students, while others enroll students interested in obtaining skills necessary for immediate employment. These latter institutions will be much more privatized in character than is the case for most colleges today.

This new wave of pragmatic colleges has been developing for years. As colleges and universities add applied degrees in newly emerging technical fields, student interest in degrees representing the traditional liberal arts declines. In part, this trend represents the natural evolution of knowledge and social realities, but it also signals the development of colleges and universities as job preparation academies.

A case can be made for establishing a balance between the autonomous and the privatized academy. Both are appropriate to and have a place in American higher education. But, while colleges and universities need to be able to demonstrate that they provide an important contribution to society at a fair price, that does not mean the attributes that have traditionally made American colleges and universities unique should be sacrificed in the name of efficiency.

NOTES

[1] Chi, Keon S., and Cindy Jasper. 1998. *Private Practices: A Review of Commercialization in State Government.* Lexington, Kentucky: Council of State Governments.

[2] National Center for Education Statistics. 2002. *Digest of Education Statistics.* Washington, D.C.: U.S. Department of Education.

[3] Retrieved February 11, 2003, from the Educational Testing Service website, at http://www.ets.org/news/03061810.html.

[4] Wertz, Richard D. 2000. *Issues and Concerns in the Privatization and Outsourcing of Campus Services in Higher Education*. New York, New York: National Center for the Study of Privatization in Higher Education.

[5] Finkelstein, Martin. 2003. "The Morphing of the American Academic Profession." *Liberal Education* 89(4).

[6] Based on data from the National Center for Education Statistics. 2000. *National Survey of Postsecondary Faculty: 1999*. Washington, D.C.: U.S. Department of Education.

[7] Lau, R. 1996. "Shared Governance and Compton Community College District." EDIM 710. Malibu, California: Pepperdine University, Organizational Management & Governance.

[8] Retrieved January 11, 2004, from *Grapevine*, the website of Illinois State University's Center for the Study of Education Policy, at http://www.coe.ilstu.edu/grapevine/.

[9] National Education Association. 2004. *Challenges and Opportunities: State Legislative Views On Higher Education, Results of the 2003 Higher Education Issues Survey*. Washington, D.C.: author.

[10] Burke, Joseph C., and Henrik Minassians. 2003. *Performance Reporting: Real Accountability or Accountability "Lite."* Albany, New York: Nelson A. Rockefeller Institute of Government.

[11] Ibid.

[12] Retrieved February 12, 2004, from the Postsecondary Education Opportunity website, at http://www.postsecondary.org.

[13] McPherson, Michael, and Morton Shapiro. 2002. *Global Issues in Higher Education: What American Colleges Should Learn*. Washington, D.C.: Educause.

[14] Grantham, Martha. 1999. *Accountability in Higher Education: Are there 'Fatal Flaws' Embedded in Current U.S. Policies Affecting Higher Education?* Fairhaven, Massachusetts: American Evaluation Association.

[15] National Education Association. 2004. *Challenges and Opportunities: State Legislative Views On Higher Education, Results of the 2003 Higher Education Issues Survey.* Washington, D.C.: author.

NATIONAL EDUCATION ASSOCIATION

Office of Higher Education
1201 Sixteenth Street N.W.
Washington, D.C. 20036
202-822-7100
E-mail: Highered@NEA.org

This issue prepared by: John Lee, JBL Associates

To view back issues of *Update*, go to **www.nea.org/he/**