Privatization in Higher Education

By
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Summary
Despite the remarkable rate of change that marks our world today, six forces are undeniably spurring the spread of privatization in higher education: the rise of an information-based economy, changes in demographics, an increase in public scrutiny, the advent of new technologies, the convergence of knowledge-based organizations, and a decline in public trust in government. Governors can help state postsecondary education systems respond to these forces by helping define academic quality and student achievement, eliminating overlap and duplication, ensuring accountability, and more efficiently utilizing the capacity of private providers of postsecondary learning.

Background
The first force that is spurring the spread of privatization in higher education is the rise of an information-based economy. Now the sources of wealth come from knowledge and communication instead of natural resources and physical labor, which once characterized the United States as an industrial society. This is a global rather than a national economy. The New Economy puts a premium on intellectual capital and the people who produce it. This means that the demand for higher education is expanding dramatically. Education is needed throughout a lifetime, and the marketplace for that education is international. This growth makes education appealing to the private sector.

Second, the demographics of higher education have changed substantially. Students above age 25, women, working adults, and part-time attenders accounted for most of the enrollment growth in the 1980s and 1990s. Less than a fifth of today’s college students meet the traditional stereotype of attending school full time (i.e., being 18 to 22 years of age and living on campus). For the new majority of students, higher education is not as central to their lives as it was for previous generations of students. Research shows they want a very different relationship with their college than students have historically had. They are looking for just four things: convenience, service, quality, and low cost. They are unwilling to pay for activities and services they do not use. What they are asking for is a stripped-down version of higher education minus the plethora of electives and student activities. They are prime candidates for adult-oriented, for-profit institutions, such as the University of Phoenix, which offer limited majors, few
electives, and instruction by part-time faculty at convenient hours for students with great customer service in nearby locations in the suburbs and the business districts of our cities. They are also excellent candidates for for-profit or not-for-profit distance learning programs that are available in their homes or at their offices at any hour.

Changes in the demographics of traditional students will also affect the future of higher education. The number of 18-year-olds is growing at the rate of more than 1 percent per year. However, the growth is occurring disproportionately in the South and the West. In addition, an increasing proportion of high school graduates are now attending college—currently 65 percent, compared with 42 percent in 1970. The result is a tidal wave of new enrollments coming to higher education and varying dramatically by state. California, for instance, is bracing for a half-million new students in the coming decade. The state lacks the capacity on existing campuses to accommodate the increase in enrollment and must decide whether to build new campuses, create virtual campuses, or contract instruction to other organizations.

There is also a growing demand for higher education around the world, and the American university is thought of as perhaps the best source for that education. English is increasingly becoming the world’s second language. Because the British Open University has been enormously successful—now offering instruction in more than 100 countries—the specter of global distance learning with markets of previously unimaginable sizes seems a distinct possibility and a real incentive for the private sector to enter the field.

Third, higher education is being subjected to greater criticism than in the past on issues varying from low productivity and high cost to the quality of leadership and the inadequacy of technology use. This is an invitation to a private sector that rightly or wrongly sees higher education as the next health care industry.

A fourth force is the advent of new technologies, the nation’s love affair with the Internet, and the growth of enormous capital for investment. Higher education is an appealing investment for the private sector. Not only is it perceived as troubled and slow to change, but it also generates an enormous amount of cash and its market is increasing and growing global. “Customers,” better known as students, make long-term purchases lasting two to four or even more years, thereby providing a very dependable cash flow and revenue stream. Enrollment in higher education is also counter-cyclical, which is very unusual in a business. College and university enrollments, translated as dollars, grow when the economy is bad because people are more likely to go to college when they cannot find work and to drop out at a greater rate when there are more jobs. On top of all of this, states and the federal government subsidize the higher education industry through their financial aid programs. It’s a terrific package.

The results have been impressive. Venture capital firms with an interest in education are increasing substantially. Many major investment houses are developing higher education practices. Kaplan has an online, for-profit law
school. Sylvan Learning Systems has a university in Europe. The accredited University of Phoenix, traded on NASDAQ, is the largest private university in the United States. Jones University is an entirely online, for-profit university. It recently received regional accreditation, the good housekeeping seal of approval. Unext, an online, for-profit university, is offering an M.B.A. with Stanford, Chicago, Columbia, Carnegie-Mellon, and the London School of Economics. To make things more complicated, New York University, while still functioning as a non-profit institution, just took its continuing education school for-profit.

The business community faces certain barriers to entering higher education, including the lack of an established reputation or brand name in higher education, the lack of content embedded in courses and intellectual capital embodied in a faculty, and the inability to certify or award credits and degrees. Business leaders believe they will be able to surmount these barriers, owing to their financial resources, an entrepreneurial spirit unimpeded by a commitment to current practices, and their speed in entering the field. Their belief is that a brand name is fragile today, as Amazon.com proved with Barnes and Noble and Microsoft showed with Encyclopedia Britannica. Content and faculty members can be bought if universities fail to join with the business community in forming partnerships. Venture capitalists who visited Teacher’s College last year estimated that the certification requirements of any state could be met or successfully challenged in one to three years.

The convergence of knowledge organizations is a fifth force. Television and cable networks, publishers, symphony orchestras, public libraries, universities, and museums, among others, are all starting to engage in the very same activities. Each of these organizations is in the content business, whether that content is packaged as books, television shows, concerts, exhibits, or courses. What each is now attempting to do is to expand the audience for its content and the number and kinds of venues for distributing that content. For example, the publishing company Harcourt Brace has formed a university, and the Public Broadcasting System (PBS) is now the largest provider of science teacher professional development in the nation.

Finally, public trust in government has declined in recent years. The result is declining confidence in the nonprofit sector and rising confidence in the for-profit sector.

**Outlook for the Future**

So given all these changes, what is going to happen to higher education? My complete and unvarnished speculation is that we are going to witness a revolution in the nation’s colleges and universities. The following changes stand out.

There will be a greatly expanded and far more diverse set of higher education providers. Today there are 3,600 colleges and universities in the United States. For the most part, though they are public and private, the vast majority is nonprofit. In the years ahead, they will be joined by for-profit higher education and
nonprofit knowledge organizations, such as museums and libraries that have entered the postsecondary market. There are already more than 1,000 corporate universities that provide instruction and staff development for their own companies. Some are far more advanced than traditional colleges in terms of pedagogy, curriculum design, and evaluation. Nonprofit and for-profit foreign universities will also join the fray. There will also be hybrids, such as the Western Governors University created by 17 states in collaboration with at least 14 business partners that include IBM, AT&T, and Microsoft. We will see competition between for-profits and not-for-profits as well as partnerships between and among sectors. For instance, in a recent conversation, an auto executive told me his car-making company was talking with a for-profit educator about turning now underutilized showrooms, the result of a rising level of Internet car sales, into for-profit community education centers.

The effect of these changes is likely to be substantial. Some colleges, particularly low-endowment, low-selectivity private schools, will face increasing pressure simply to remain open as competition grows. Institutional closures will rise. New brand names and a new hierarchy of quality in postsecondary institutions should also be an expected consequence. Is there any reason why a Microsoft credential should be less prestigious than one from Southeastern State University? The innovation leaders are far more likely to come from the new providers as well as from those demonstrating the best customer service and the most commitment to assessing program performance. In this sense, traditional higher education may well become the follower rather than the pacesetter in this new postsecondary world.

**There will be three basic types of colleges and universities.** One type will be the traditional campus-based university. Let's call these “brick universities.” Another type will be the new virtual university, such as Unext. These could be called “click universities.” The third version will be a combination of the two, which could be called “brick and click universities.” The most successful brick universities are likely to be residential colleges appealing to more traditionally aged students. The exclusively click universities will focus on nontraditional populations. Today's major universities are likely to try to become brick and click institutions that, if current findings on e-commerce are correct, should be both the most competitive and most attractive market in higher education. Although consumers appreciate the convenience, ease, and time-independent nature of shopping online, they also want the physical presence of the store for returning merchandise, getting expert advice, trying on and viewing products, and having interaction with salespeople and even other customers. Higher education’s for-profit competitors already know this.

**There will be a reduction in the number of physical campuses in the United States.** In 1947 President Harry S Truman’s Commission on Higher Education released a report citing five major obstacles to higher education. One was geography. There were simply not enough colleges. It became a matter of
policy to create a college within easy commuting distance of every American. We have been remarkably successful and now have campuses in commuting range of more than 90 percent of all Americans. In a time when populations are increasing and distance is dying through the application of new technologies, states are likely to begin asking why we need all of this physical plant. California, for example, might ask why any state would need nine public research universities. Or New York might wonder if a state really needs 64 separate state universities. A reasonable conclusion is that the United States overbuilt campuses. Most of American higher education institutions are relatively alike, offering roughly the same programs and differing only by degree level and number of professional schools, so there is even less reason to create so many duplicate copies. For these reasons, the number of physical campuses is likely to be cut in the years ahead. The remaining institutions might well be encouraged to reduce the enormous degree of overlap in their programs, particularly in under-enrolled subject areas. In this sense, colleges and universities may well feel pressure to change from comprehensive department stores to more specialized boutiques.

There is likely to be an unbundling of the traditional functions of higher education. The functions of higher education are traditionally described as teaching, research, and service. Teaching is the only one of these functions that is universally profitable to colleges and universities. Research is sort of like NCAA football. It is only profitable to a very small number of schools. Everyone else loses money. Consequently, the new providers in higher education will only be interested in teaching. They will compete with colleges and universities only in the realm of instruction. Although this is a wise business decision, it raises a big issue for the nation. To the extent that colleges lose out to their new competitors, the offsetting funding for two activities of vital national interest is lost. The policy question that must be addressed is how do we protect the research and service functions? An institution that engages only in research and service is not financially viable, and it may not even be intellectually viable.

Faculty will be independent of colleges and universities. With the rise of virtual universities, the spread of technologies within higher education that enable institutions to reach dramatically larger audiences, and the entrance into higher education of a well-funded for-profit sector, the keys to the future will be the best faculty and the best content. Leading faculty will become the equivalent of stars. It is only a matter of time until agents represent them, the equivalent of an academic Michael Ovitz. With a worldwide market in the hundreds of millions, there will be talent agencies that specialize in representing faculty. Given the multitude of providers, it would be possible for an agent to bring a package to a faculty member that consists of a book deal with Random House, a weekly program on PBS, a consulting contract with Microsoft, commercial endorsements from one or more companies, and a distance-learning course with Unext for a fee of $2.5 million. When—not if—this occurs, it will be analogous to the fall of the studio system in Hollywood. Originally actors had contracts exclusively with a single film studio as professors do today with single universities. However, as a
result of government action and the rise of talent agencies, actors gained prominence over studios. They work with particular studios on particular projects and often own their own production companies. The dominant force in Hollywood today is the actor or talent, not the studio. The same is likely to occur in academe. The professor’s name will be more far important than the university’s at which he or she is working at any given moment.

There will be worldwide campuses. For the most part, colleges and universities are associated with a particular nation. For click universities and click and brick universities, national boundaries have no meaning. The result will be the rise of global universities. Which institutions make the transition will depend on their speed of action and the quality of the products they produce. Global for-profits and schools, such as the British Open University, that already operate around the world have an edge if they can develop the cutting-edge pedagogy for the new Internet technologies that will shape the future.

Higher education will be individualized. Instruction will be available anytime or anyplace. Students will be able to receive their education on a campus, in the office, at home, in the car or on a train, in a hotel, at a conference, or on a vacation. That instruction will occur throughout a lifetime. It may be in multiyear blocks, months, days, or hours. The student will be able to choose the form of pedagogy most consistent with how he or she learns from numerous, different suppliers.

The focus of higher education will shift from teaching to learning. Today higher education focuses on process. In general, students study for defined periods, earn credits for each hour of study, and are awarded a degree upon earning a specified number of credits. With the individualization of education, the growing diversity of students, and the multiplication of providers, the commonality of process is very likely to be lost. With this change, the emphasis will necessarily shift from standardizing process to measuring outcomes. Accordingly, the emphasis will change from focusing on how students are taught to determining how much students have learned.

Degrees will wither in importance. Degrees today are the certification of time spent in a college. From college to college, there is little comparability of common quality or even of content in the studies constituting the same degree. In essence, we offer 3,600 different degrees at any given level of education in the United States. The degree signifies a period of successful college attendance, the class rank suggests the relative degree of success, and the name of the college indicates the quality of the degree.

With the change in emphasis from process to outcomes, degrees become far less meaningful or useful. It would be far more helpful to have a transcript of each student’s competencies, what they know and can do. This might be a series of certificates or a statement of each skill or knowledge competency a
student achieves. To record student achievements—throughout a lifetime in different settings using varied learning methods in perhaps different geographic areas—it will be necessary to establish a central education recording bureau and provide each person with a portable record of their educational achievements. This record might be called an “educational passport” or a “portfolio.”

**Educational dollars will follow students more than institutions.** Again because of the multiplication of educational providers and the emphasis on outcomes, it is likely to make sense to government and private funders to invest their money in the student rather than institutions. Now funding of public universities by the state is a norm. States may choose to increase competition and reduce both funding demands and dependence on physical plant by redirecting the money to the consumer. This would raise large questions about the independence of higher education and the degree to which colleges and universities will be required to be market-driven and consumer-oriented in the way most for-profit schools are.

**Issues for States**

Such changes would raise very large policy questions for governors, including the following.

- How should states define and ensure quality in a world characterized by proliferating providers—nonprofit and for-profit, brick and click, national and international, degree and nondegree?

- How should this circus of providers and these forms of education be coordinated within and across states? Can eliminating overlap and duplication save revenues?

- Will higher education be profitable to the private sector beyond a small number of very visible institutions such as the University of Phoenix? If so, which sectors will be profitable: those preparing content, disseminating content, or supporting the activities of colleges and universities? Will competition or partnerships be more successful? Is all of this a permanent change or just a passing fad?

- How should states ensure accountability? What role should states play in mediating development? Should this occur principally by marketplace action, peer review such as accreditation, or government leadership? Should higher education be entirely driven by the marketplace?

- What should states invest in: physical or virtual campuses, for-profit or not-for-profit higher education, students, or institutions? Or, more realistically, what combination should states invest in? How should states take advantage of creating partnerships; outsourcing; developing the higher education equivalent of charter schools; and using the services of for-profit
management firms, collegiate versions of school management companies such as Edison Schools?

• What role should states have in recording student achievements in a system in which education will occur throughout a lifetime from a multitude of providers?

**Conclusion**

We are living in a time when the literature describing the privatization of higher education is largely anecdotal, with duration of accuracy lasting approximately 15 minutes. New for-profit initiatives in higher education are starting and ending at a very rapid rate. This week’s great success and revolutionary idea is old news and a failure next week. The field can alternately be described as a cornucopia of new efforts or a miasma of half-baked entrepreneurialism. It is probably both.

The facts are simple. We lack a common vocabulary to describe the initiatives that are being undertaken and a comprehensive map or even typology of what is going on. There are more questions than answers today. And, if venture capital firms are to be believed, there is much more money available than good ideas worth investing in. We are not even sure whether higher education is a profitable field for the private sector, though the preliminary evidence suggests the opportunities are better than in elementary and secondary education.
About the Author

Arthur Levine is president and professor of education at Teachers College, Columbia University. He received his bachelor’s degree from Brandeis University and his Ph.D. from State University of New York at Buffalo. Prior to Teachers College, he chaired the higher education program and the Institute for Educational Management at the Harvard Graduate School of Education. Mr. Levine is the author of dozens of articles and reviews, including When Hope and Fear Collide: A Portrait of Today’s College Student (with Jeanette S. Cureton), Beating the Odds: How the Poor Get to College, Higher Learning in America, Shaping Higher Education’s Future, and When Dreams and Heroes Died: A Portrait of Today’s College Students. An advocate of improving teacher quality and enhancing the use of technology in higher education, Mr. Levine’s opinion editorials have appeared in The New York Times, The Los Angeles Times, The Wall Street Journal, and The Chronicle of Higher Education. A 1982 Guggenheim Fellowship winner, Mr. Levine’s other awards include recognition by Change magazine as “One Of The Most Outstanding Leaders in the Academic Community.”