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Privatization of Education

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Abstract

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.

Meaning of Privatization

Privatization is the incidence or process of transferring ownership of a business, enterprise, agency or public service from the public sector (government) to the private sector (“business”). In a broader sense, privatization refers to transfer of any government function to the private sector-including governmental functions like revenue collection and law enforcement.

The term “privatization” also has been used to describe two unrelated transactions. The first is a buyout, by the majority owner, of all shares of a public corporation or holding company’s stock, privatizing a publicly traded stock. The second is a demutualization of a mutual organization or cooperative to form a joint stock company.”

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. 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 money 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 convergence of knowledge organizations is a fifth force. Television and Cable networks, publishers, symphony orchestras, public libraries, universities & museums, among others, or all starting to engage in the vary 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 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 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 likely 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. 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.

There will be worldwide campuses. For the most part, colleges and universities are associated with a particular nation. For click universities and brick and click 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. 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."

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 non-degree?
- How should the 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 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 best and most current research on the subject is coming out of the venture firms and investment banks.

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, through the preliminary evidence suggests the opportunities are better than in elementary and secondary education.

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