

Squeezing the Nonprofit Sector

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The world's higher education is usually categorized sectorally as public and private but the latter encompasses both nonprofit and for-profit parts. We can speak of three sectors, as commonly done for hospitals, child-care facilities, and prisons: public, nonprofit, and for-profit.

THE TWO PRIVATE SECTORS

However, whether one chooses to call nonprofit and for-profit subsectors of private higher education or sectors of their own, an unfolding and surprising international reality is that, while for-profit private higher education is growing, nonprofit private higher education is being squeezed—its decades-long growth in share of higher education enrollment seriously threatened. The squeeze comes from the for-profit side and from the public side.

The nonprofit sector is often called the “third sector,” lying in between the public and for-profit sectors and affected by each. For decades, the nonprofit sector benefited from the public sector's failure to meet massively accelerating

demand: private higher education soared to roughly 30 percent of total global enrollment, with the bulk of that 30 percent in nonprofit institutions.

Or, at least the bulk is in institutions that are nonprofit by their legal status. In reality, many of these nonprofit institutions are functionally much like for-profits. They are often what the literature on nonprofits calls “for-profits in disguise.” The difference between what is legally and functionally nonprofit gives rise to confusion. The concept of nonprofit private institutions is generally much less understood outside the United States than inside. One important nonprofit principle is a private voluntary action for motives other than financial gain—private ownership acting for public good. Legally key is the prohibiting distributing financial gains to owners or investors; there is no condemnation against generating surpluses that are then plowed back into the institution. But, many legal nonprofits are adept at finding ethically dubious ways to route gains to their controlling businesses, family, or friends.

There are wildly different estimates of the size of for-profit higher education. Counted by legal definition, for-profits comprise only a small share of the world’s private higher education; perhaps, most countries do not even authorize legal for-profit higher education. Indeed, many observers doubt that outside the United States true nonprofits extend much beyond religious and a few semielite institutions. In considering the factors that squeeze nonprofit higher education, it is worth pondering which fall more on genuine nonprofits or ones that are functionally for-profit.

ACCELERATED PUBLIC SECTOR GROWTH

Historically, in most of the world, public higher education had long been the natural order. This, in turn, made subsequent private growth striking. As long as private higher education increased its share of enrollment, growth was the dominant theme. But in the new century, with private higher education already widely entrenched, increasing private shares cease to be inevitable. Now, a notion of a private sector being squeezed from the public side becomes relevant.

In several countries the private share has actually decreased. This is sometimes the result of radical government policy that vastly expands the public sector into forms or quality levels previously unknown, as in Hugo Rafael Chavez's Venezuela. Less radically but often in fresh higher education modalities, public expansion has been sufficient—as in Colombia and the Philippines—to bring a decrease in the private enrollment share, despite continued increases in absolute private enrollment. Or, the sharp public expansion at least prevents further growth of private shares, as in Brazil, or slows its otherwise greater growth, as in China.

SQUEEZED BY PUBLIC SECTOR “ENCROACHMENT”

It is only when private higher education is firmly established that accelerated public growth is reasonably seen as coming at the expense of private higher education. Private entrepreneurs rail against encroachment. In the past they could complain (about stultifying regulation or lack of government aid for their students) and yet still grab an increasing share of higher education's expansion. More and more they now feel squeezed by public encroachment onto “private” turf. That encroachment comes not only through accelerated public expansion

but also where the public sector reaches for “private” constituencies by adopting its methods. Examples include public universities becoming more entrepreneurial, and sometimes opening fee-paying modules alongside their traditional low or no tuition base.

The squeeze is especially tight when it comes in times of overall system enrollment stagnation or even decline. The demographic realities that have brought shrinking enrollment to Japan and South Korea are poised to do so in Poland and some other eastern European countries. Nothing increases conflictual intersectoral dynamics faster than a shrinking pie. Since public institutions usually hold the status level over the private institutions and carry out a lower tuition, they have major advantages in maintaining their enrollments at the expense that had previously been ticketed for the private sector. The relatively high-status private universities—disproportionally the truly nonprofit ones—have more resources to cope with the competition, to resist enrollment incursions by the other sectors, though even they too are troubled. But the large majority of legally nonprofit institutions, both the truly nonprofit ones and the functionally for-profit ones, are low status and vulnerable.

SQUEEZED BY FOR-PROFIT SECTOR GROWTH

While some of the legally for-profit institutions are also threatened by public growth, they have been expanding in many places. Clearly, for-profit dynamics, behavior, and norms are spreading.

Even in terms of enrollment, legally for-profit enrollment is notably growing. Brazil has led the way in Latin America since the mid-1990s and now one-fifth of its total enrollment is in legally for-profit institutions. Peru and a few

other Latin American countries likewise permit legal for-profit higher education. In Chile and Mexico only nonprofit universities are legally permitted. Legal for-profit higher education has been more widespread in Asia, and now the Chinese government has authorized a period of experimentation with for-profits.

Such for-profit growth risks the nonprofit sector both directly and indirectly. It leaves the nonprofit sector with fewer tuition-paying students. Moreover, if the Brazilian case is an example, creation of a legal for-profit sector sets up a dilemma for existing nonprofits. The government's fundamental rationale in legalizing the for-profit form was that functionally for-profit institutions pretending to be nonprofits should lose their tax breaks and be forced to pay taxes on their profits. This threatens the size of the nonprofit sector in two ways. One way is obviously that some institutions feel compelled to leave the sector, while some new institutions set up outside it. The other way is that institutions that preserve their legal nonprofit status come under increased regulatory scrutiny.

HOW FOR-PROFIT HIGHER EDUCATION GAINS GROUND

Of course, increased scrutiny can make life rough in the legally for-profit sector, as well. Congressional clamoring has chilled the US for-profit sector and has recently curbed its growth, partly diverting it into nondegree activities. However, no strong global evidence reveals that any regulation could stem the net growth of shoddy for-profit higher education enterprises (whether legally for-profit or legally nonprofit). Often these institutions thrive either by deceit or exploiting a vulnerable student body with poor or unclear alternatives.

As both other articles in this special section show, profit *can* go hand-in-hand with quality, at least in career-oriented teaching. Indeed large for-profit businesses may have some inherent advantages in this sort of provision. They can enjoy economies of scale and function with largely uniform programs across institutions and even countries: (1) business discipline for a higher education reality; (2) access to finance, sometimes to absorb short-term losses for long-term gains; (3) they can be consumer-oriented particularly when the student demand is for efficient training.

Thus, the nonprofit sector is squeezed from both other sectors, albeit mostly in different ways. This squeeze comes as traditional noncommercial pillars of demand for nonprofit supply have diminished—education founded on religious or other distinctive values and on trust in the worth of broad learning.