

oversight from government, while a government-controlled system would involve strict controls and a high degree of micromanagement from the government or its agents. Even in a system where public funds predominate, however, institutions can have autonomy if they receive government funding in a lump sum with few strings attached.

Another measure of autonomy is whether institutions are free to set their own fees. One might presume that private institutions immediately fall into the autonomous category when it comes to fees while public institutions would not, but the story is not so simple. In some countries such as the Philippines where private higher education accounts for more than two-thirds of all enrollments, private institutions are not free to raise their fees at will and must subscribe to government rules and limits. Conversely, officials of public institutions may be responsible for setting fees, although usually within government rules or ranges.

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A corollary measure of autonomy is what happens to government funding when public institutions increase their fees. A system in which institutions have discretion but government funds are reduced on a one-to-one basis as fees are increased could be fairly characterized as a heavily regulated one, while a system without a “penalty” for increasing fees could be characterized as one in which market forces predominate.

#### *Financial Aid*

Although the issues of autonomy and how institutions are funded are more typically associated with questions of market mechanisms, student financial aid policies and programs can also exhibit these properties as well. Such an analysis might begin by asking what proportion of all government funding is provided in the form of student aid rather than the support of institutions. Systems that provide a higher share of funding through student aid can fairly be characterized as being more market-based than those in which all or virtually all government support goes directly to institutions. Another related issue is the mix of scholarships and loans, with systems that rely more on loans than grants being more market-based, compared to programs more slanted toward scholarships or other forms of nonrepayable aid. For countries in which student loans are provided, those that have higher levels of public subsidy could be referred to as more government oriented than loan programs with little or no subsidy.

One advantage of taking this “quantitative” approach is that it would allow for the development of an index of privatization in which countries or other government entities such as state or provincial governments could be compared in their reliance on market forces for the carrying out of government policies. Countries with a higher level of privatization as measured on the index would be those in which private resources represent a higher proportion of all higher education revenues, public and private institutions have a relatively high level of autonomy in their spending and fee-setting policies, and there is a relatively high level of reliance on student loan programs with relatively low subsidies. Conversely, countries with a high level of government support and regulation of their institutions and low levels of student aid, particularly loans, would be characterized through the privatization index as largely government controlled and funded.

Such an index would also be useful in taking a look at whether a country’s level of privatization had changed over time. One could see through changes in the index whether a country had increased in its level of privatization over time and peg these changes to shifts in policies. The index would be a better indicator of a country’s changing reliance on fees, for example, than government pronouncements or the issuance of white papers. Thus, by facilitating comparisons among countries and longitudinal studies within countries, the development of a privatization index might represent a fruitful avenue for further data collection and analysis that would clarify and enhance the multiplying conversations around the world on market reliance in higher education.

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## Humanizing the Spectre of the Higher Education Market

**Lara Couturier**

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Higher education is increasingly in demand around the world. Lauded as the key to progress in the 21st century, higher education is now aggressively sought out as a factory churning out workers for the New Economy, an incubator of thoughts and experiences that form active citizens, and a place of discovery that fuels societal progress.

Much to the surprise of many, the economic theory of supply and demand has been borne out even for higher education. Increased demand has led to significant changes in supply. Historically seen as a government-supported service, higher education has now entered the marketplace fray. Universities that had a virtual monopoly for decades and even centuries are now encountering a range of competitors—virtual consortia, global branches of universities, for-profit institutions—that are vying for revenues and profits, even if they are nonprofit in principle. New technologies that improve the teaching and learning process and a savvy breed of students with higher expectations are adding to the pressures. Perhaps most important, there is an increasing tendency for governments to rely upon the market to encourage greater responsiveness from the higher education system.

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#### *What Really Matters*

Why research the extent to which higher education systems rely on market forces? Because we know that markets can indeed encourage institutional responsiveness, but also that markets do not always serve society well. Two examples: market reform of the healthcare system in the United States has been blamed for leaving approximately 43 million people without health insurance. Who is excluded? Those most likely to be sick, and those least able to pay for health insurance. In New Zealand, a highly decentralized and market-oriented primary and secondary education system resulted in schools polarized by student ethnicity and socioeconomic status.

The discussion about markets in higher education is often distant and abstract, so let's zero in on what really matters. What will a competitive and market-oriented higher education system mean for individuals and society?

#### *The Downsides*

What impact might a market-oriented higher education system have on Nik, a 19-year-old high school graduate wishing to live at or near his university? Tuition revenues from high-enrollment, low-cost disciplines such as business or education have historically supported a university's ability to cross-subsidize low-enrollment, high-cost disciplines such as the classics or pharmacy. We have seen examples from South Africa to the United

States where new, for-profit providers cherry-picked the more lucrative disciplines, threatening the ability of the established nonprofits to offer the more expensive, low-enrollment disciplines. For Nik, a budding international relations-focused political scientist who will—unknownst to him now—someday find the key to nuclear disarmament, the danger is that his university may not offer the courses or disciplines that will prepare him for his important future.

A focus on the bottom line can also undermine a university's willingness or ability to offer experiences that contribute to educating civically minded citizens, such as student government and intramural sports. This concern is especially strong in those countries trying to build new democracies. Nik and his fellow citizens may be denied experiences that would someday help them to run an effective participatory government.

The Futures Project, a higher education think tank located at Brown University, is not based on the assumption that the traditional university is going to disappear into a cloud of virtual reality. The threat lies not in extinction, but in the danger that competition will force institutions—nonprofit and for-profit alike—to focus on revenue streams to the exclusion of other activities. The quest for cash has the potential to chip away, slowly and irreversibly, at higher education's quality and the foundation of its public role.

#### *The Needs of a Mother of Three*

Tonya, a mother of three children who grew up in a poor, rural area with limited educational opportunities, cleans the offices of a multinational corporation. She knows her employer would like to hire more local talent for administrative positions, which pay significantly more than her current job, but she lacks the necessary skills. Will a competitive higher education market help, or harm, Tonya?

One benefit to a market in higher education is that, as new competitors proliferate, students like Tonya will be able to find a program that can be built around her schedule, choosing from more schools offering courses at different locations and times, even virtually. The pressures of competition will also force institutions to be more concerned with efficiency, driving down the overall costs of higher education.

One of the biggest threats to a low-income student like Tonya is that she may not be able to participate in a more market-oriented system. If governments do not intervene in the market, institutions will seek out those students who help them to maximize revenues—namely, students who are able to pay and students who are easy to teach and require fewer resources. One of the perverse consequences of the market is that, in many countries, the wealthiest students are the best prepared and therefore gain entry into the prestigious and free public

universities. The less-prepared and lower-income students are left to find ways to pay for a private education. An unanticipated consequence of the market in the United States, where tuition is nearly always charged, is that financial aid originally designed to boost participation of low-income students has been twisted into a competitive tool. Financial aid is now widely used as an incentive to attract the “best” students, with less focus on financial need.

#### *What Must Be Done?*

New policies, if thoughtfully constructed, can provide the necessary balance between taking advantage of the opportunities of the market while simultaneously controlling the threats. The Futures Project is investigating policies that address the degree to which universities are free to compete in the market, the availability of good information about universities for students, and how to improve preparation and financial aid to ensure success for a broader portion of the population. Academic leaders and policymakers need to come to an agreement about what is needed from higher education and then renew the compact between higher education and the society it serves. Then, via policy, it is possible to ensure that the private interests pushed by the market are working for higher education, and higher education is working for the public. ■

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## For-Profit and Traditional Institutions: A Comparison

**Robert R. Newton**

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The fastest-growing sector among the 3,500-plus U.S. institutions of higher education is for-profit education. Three years ago, the *Chronicle of Higher Education* reported that in the previous five years for-profit education had “been transformed from a sleepy sector of the economy, best-known for mom-and-pop trade schools, to a \$3.5 billion-a-year business that is increasingly dominated by companies building regional and even national franchises.”

In summer 2000 the highly publicized University of Phoenix had 68,000 working professionals enrolled in undergraduate, graduate, and certificate programs around the world, 85 campuses and learning centers in the United States, Puerto Rico, and British Columbia, and was exploring campuses in the Netherlands, Germany, and elsewhere in Europe and Asia.

At the heart of the University of Phoenix’s success are a sharp, narrow definition of objectives and a highly systematic educational and business plan, characteristics not often associated with nonprofit higher education. I thought it would be interesting to ask how Phoenix, and by extension for-profit institutions generally, differ from traditional colleges. I realize that colleges and universities worldwide fall along numerous points on the traditional college spectrum and that the comparison for a particular institution would need to be adjusted accordingly.

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***Colleges are both educational corporations and communities of scholars.***

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#### *Focus*

The University of Phoenix concentrates on one slice of the higher education pie: adults working full time, at least 27 years of age, who have established career goals. To serve this population, Phoenix course goals are tactical rather than strategic, focusing on the knowledge and skills that have immediate payoff—the competencies their customers need right now for their next career move.

The traditional college usually targets a younger age group, encourages full-time study, discourages full-time employment, and offers a college experience that includes myriad educational, extracurricular, artistic, social, and athletic programs to stimulate growth both inside and outside the classroom. The broad goal is a liberal education, an experience that seeks to free the students from prejudice and ignorance by confronting them with fundamental human questions, exploring differing responses to these questions, insisting that students develop their own positions, and challenging them to figure out how to live “the good life.” Both the students and their anxious parents trust that this broad education will eventually lead to gainful employment.

#### *Metaphors*

Colleges are both educational corporations and communities of scholars. As corporate entities, they depend on expertise in finance, higher education law, accreditation, marketing, customer relations, and other areas, to survive in an increasingly competitive environment. The concepts of higher education as an “industry” and students as “customers” are relatively recent developments. The University of Phoenix modus operandi fits easily into this concept—as a corporate member of the over \$200 billion industry that delivers education and training services to consumers at an affordable price. In con-