level. At the University of Michigan, for example, less than 400 out of an annual total of 5,000 graduates are business majors. Yet the vast majority of its graduates find employment in the business sector.

Students and their parents want equitable and transparent access to higher education, a fair admissions process, flexibility in course selection, good-quality instruction, government or private-sector financial assistance, and good jobs upon graduation. Universities, for their part, want continued government funding but with autonomy over enrollments, fees, admissions standards, student and faculty recruitment, and course curricula. The institutions compete for top-quality faculty and seek to recruit well-qualified graduate students to advance research agendas and assist in undergraduate instruction.

The government continues to direct university admissions to ensure the output of graduates matches projected skilled manpower needs.

Promoting Equity and Efficiency

Equity and efficiency should be the criteria for evaluating the various stakeholder interests while determining policies on student admissions and tuition. Tuition-based funding borne mainly by students themselves is efficient because it produces a better match between supply and demand for particular university places and for particular types of graduates. The courses students choose will reflect their own intellectual preferences and expected lifetime income. On a yearly basis, the courses are likely to be "closer to the market" than manpower plans based on projected economic growth rates. Tuition-based funding is also equitable since the individual graduate is the main beneficiary of the higher lifetime income and nonpecuniary benefits afforded by the person's university degree.

In developed economies, many students pay for university tuition by taking out loans from the government or the private financial sector. Involving banks in providing loans will help allocate resources more efficiently, since they can charge higher interest rates for more risky courses of study. In Singapore, however, it may take a while to change mindsets. Accustomed to highly subsidized education, families and students remain reluctant to take loans to finance education.

We believe a market-based system of allocating university places, funded primarily by tuition paid by students themselves, is both efficient and equitable. Such a system improves the performance of universities themselves and encourages academic excellence, to the benefit of society as well as graduates and employers. All stakeholders—the government, employers, parents, students, universities, academics and the public—will adjust to this system if it is allowed to evolve.

The deterministic manpower planning models that have served many countries well, including Singapore, are no longer appropriate as guides to resource allocation. It is time to introduce more market-based and flexible mechanisms into university enrollment planning. ■

US Privatization, Accountability, and Market-Based State Policy

Peter Eckel, Lara Couturier, and Dao Luu

Peter Eckel is associate director for institutional initiatives, Center for Institutional and International Initiatives, American Council on Education. Address: 1 Dupont Circle, Washington, DC 20036, USA. E-mail: peter_eckel@ace.nche.edu. Lara Couturier is the former research director of the Futures Project and now an independent consultant. Dao Luu was an intern at the American Council on Education.

In the United States, the relationship between state governments and public colleges and universities is being redefined with new notions of autonomy and accountability and highly market-driven funding policies (often referred to as "privatization") as the centerpieces. These new patterns have implications for both public and independent colleges and universities. The American Council on Education convened three roundtable conversations of presidents and other higher education leaders to explore the implications of this changing relationship. The following points emerged from those discussions and appear in the paper, "Peering around the Bend: The Leadership Challenges of Privatization, Accountability and Market-based State Policy."

Business is not "as usual." Situations and strategies unthinkable just a few years ago are becoming increasingly commonplace. For instance, a few business and law schools at public institutions are moving toward privatization, distancing themselves from both the states and their parent universities. Public universities are seeking "enterprise status" to become quasi-public institutions. One southern governor offered deals to his public institutions to privatize, removing them from state authority and state funding.

Innovative (but untested) policies are emerging. Policies labeled as decentralization, tuition deregulation, vouchers, public corporations, state enterprises, charter colleges, and state compacts are appearing, reflecting the changing perception of the role and function of public higher education. These assumptions, long based on the premise that higher education is a public good, are being replaced by a public belief in higher education primarily as a private individual good. However, the policy labels and their definitions vary, making it difficult to understand what is truly happening.

Higher education leaders must reconcile two competing policy tensions. One set of policies encourages expansion and rising expectations of higher education's many services to society. In many states, public officials see higher education playing a central role in addressing state economic and social needs, in addition to traditional education and research roles. The other set of policies encourage contraction and fiscal restraint. State support is not expanding commensurate with institutional needs, and in some states it is even declining. Institutional leaders find themselves in difficult situations because they can-not respond adequately to both demands concurrently.

"Privatization" of public higher education is a solution garnering significant attention, and it is most likely the wrong strategy. Despite recent high-profile examples, becoming private (in this context understood as a reliance on private revenue sources rather than public funds) is not a feasible option for most institutions. One public research university president estimated that his institution would need to increase its endowment by $7 billion to replace lost state funds. Public higher education is also reluctant to sever its historic ties to the state, as doing so sends unfavorable messages to policymakers and the public that the institution no longer views itself as a public asset. Instead, a handful of public institutions are striking middle ground through a type of hybrid public/independent status such as public corporations found in Maryland and state enterprises found in Colorado.

In many states, public officials see higher education playing a central role in addressing state economic and social needs, in addition to traditional education and research roles.

The historic distinctions within American higher education—public and private (not for profit)—are being challenged. In many ways public institutions are acting like private ones and vice versa. Whereas public institutions have previously received a majority of their funding from the state, these institutions now increasingly rely on private revenue. The *Chronicle of Higher Education*, for example, reported that of the 22 institutions engaged in fund-raising campaigns in excess of $1 billion, 15 are public institutions. Private institutions, on the other hand, are increasingly shaping state policy to their benefit, particularly regarding access to state financial-aid programs and public capital funding. These financial and policy changes are reducing a number of factors that once highlighted important differences and creating new key distinctions among institutions, such as those based on economic and prestige indicators. American higher education may be seeing a new set of meaningful classifications emerge, such as "public-independent" or "private-dependent," indicating historical source of control combined with the level of financial dependence on public resources.

The competition stiffens. While American higher education has traditionally been competitive and market driven, emerging state market-based policies are further intensifying the competition. Public and independent institutions of all types and sizes are facing increased market pressures. Those that are small and focused on undergraduate education often find they must play by the same rules as large diversified research institutions that offer a range of undergraduate, graduate, and professional programs. Market-based policies will clearly favor some types of institutions over others by diminishing the role of state support in higher education and will advantage entrepreneurial or historically self-reliant institutions. The increased competition may be creating more problems than it is solving. Entrepreneurial or commercial activities may provide the additional resources individual institutions need to fulfill their public purpose. However, when all institutions pursue the same set of competitive strategies, no one gains an advantage. Institutions run harder to stay in place. The cumulative effect of competition may also work against important social objectives such as affordability and access. Institutional leaders at both public and independent institutions face the difficult task of striking a balance between public or historic objectives and the pressures of the competitive marketplace, which may not be wholly compatible.

Strategies for Moving Forward

Some potential strategies for university leaders to address these difficult challenges are beginning to emerge. First, institutions should connect explicitly and intentionally to state needs. Colleges and universities must demonstrate through action that they understand the fiscal and social problems their states and regions face and that they have the capacity to contribute needed solutions. Second, leaders should intensify meaningful cooperation with other colleges and universities and with outside groups. Beyond collaboration in research and back-office functions, institutional leaders also can work collaboratively to shape public policy more effectively. Finding ways to build strong ties with the business community, alumni, parents, and leaders of civic, philanthropic, and nonprofit groups is an important policy strategy. Third, leaders need to chose the right language to reframe the issues. The language that higher education is accustomed to using when describing key policy issues, such as "autonomy," may be counterproductive. For example, higher education might be better served by talking about "more flexibility"—freedom from counterproductive regulations in managing its institutions—rather than about "increased autonomy"—with its implicit overtones of lessening public stewardship. Finally, campus leaders and policymakers need to be mindful of adopting others' solutions too quickly. It is tempting to adopt strategies that seem to be working elsewhere; however, state context matters. What's happening in one state may not be the best solution for another state. For example, the state fiscal framework and the mix of public and private institutions in each state shape available options.

A handful of public institutions are striking middle ground through a type of hybrid public/independent status such as public corporations found in Maryland and state enterprises found in Colorado.

Conclusion

Higher education leaders face the difficult challenge of balancing immediate concerns with the need to position their institutions and the higher education sector for an uncertain future. Questions such as how does one balance the pursuit of public purposes with the demands of a competitive marketplace? or how can higher education's key values be articulated and reaffirmed as steadfast priorities given the new environment and the constantly changing nature of public policy? will need to be addressed if American higher education is to preserve the best of its traditions and capitalize on the opportunities that lie before it.

Author's note. This article is based on a paper, the fourth in series of essays, capturing three roundtable conversations among 40 leaders of American universities and colleges and other higher education leaders. The essays can be found on the website of the American Council on Education (http://www.acenet.edu/bookstore) under Leadership and Institutional Effectiveness. The project was supported by Fidelity Investments. ■

China's Private Higher Education: The Impact of Public-Sector Privatization

Yingxia Cao and Daniel C. Levy

Daniel C. Levy is a Distinguished Professor at the State University of New York and director of PROPHE. E-mail: dlevy@albany.edu. Yingxia Cao is a PROPHE doctoral research associate. E-mail: yisacao@hotmail.com. Both authors are in the Department of Educational Administration & Policy Studies, SUNY-Albany. Address: Education Building, SUNY at Albany, Albany, NY 12222, USA.

IHE devotes space each issue to contributions from PROPHE, the Program for Research on Private Higher Education, headquartered at the University of Albany. See http://www.albany.edu/.

As in many countries, the emergence of private higher education initially seemed rather apart from the development of public higher education in China. The public sector could not meet the increasing demand for higher education, and the private sector thus helped fill the gap. However, as private higher education has grown more robust—and as public higher education has partly privatized—competitive intersectoral competition has become more dynamic.

The Growth of Private Higher Education

Chinese private higher education reemerged in the late 1970s, after having been abolished in an earlier period, and has now expanded enormously. Whereas only a handful of private institutions, with limited enrollments, existed in 1980, by 1999 the number of private institutions had reached 1,270—outnumbering public institutions by three to four hundred. Private enrollments grew to over one million, giving China one of the largest private higher education sectors in the world. Estimates on the private sector's share of total enrollments have ranged from a fourth to even a third, although only about 40,000 of these students were in programs recognized by the Ministry of Education and thus permitted to grant bachelor's or associate degrees.

The dawn of the new century is witnessing an important change in the development of China's private higher education. Although the number of private institutions and their enrollments decreased for the first time in 2000, the decline lasted just a year. At the same time, the number of private institutions with the standing to offer degrees has more than doubled, from 89 to over 200, and overall private enrollments are resuming their substantial growth. These characteristics suggest an upward trend in many private institutions' quality and capacity.

Scholars and practitioners generally agree that the resurgence as well as initial development of private higher education took advantage of the public sector's failure to meet the rapidly growing demand (of students and employers alike), because of institutional inertia, financial shortfalls, and policy restrictions. In contrast, the private sector proved eager and flexible enough to absorb some of the new demand. While these dynamics have been common in many countries, they do not fully explain the more recent shifts in Chinese private higher education development (which have parallels in other countries).

These colleges are owned (at least partially) or managed by private parties, classified by government as part of the private sector, but affiliated to public universities.

The Privatization of Public Higher Education

The striking public-sector privatization presents at least three challenges to private higher education development in China. One challenge involves the introduction of affiliated colleges since 1999. These colleges are owned (at least partially) or managed by private parties, classified by government as part of the private sector, but affiliated to public universities. They become a new type of provider, often with competitive advantages (conferred through their public university) over the existing independent private institutions in prestige, size, financing, and level of education provision. Although established with private financing and under independent management, affiliated private institutions usually receive important academic resources and gain enhanced reputations from the prestigious universities to which they may be linked. They are allowed to grant baccalaureate degrees, without having to go