

Chapter One

Higher Education in the Grip of Transforming Change

Whether an effective, publicly oriented system can emerge during this period of change is no small issue. The university is one of society's great inventions. Much is at stake.

This is a demanding, exciting, and risky time for colleges and universities. Suddenly, higher education is in the grip of transforming change. Part of this change flows from the demands of political leaders for access for a greater share of the population to meet the needs of the New Economy; part from the growing concern that the skills and attitudes young people bring to their roles as workers and citizens are inadequate; part flows from the growing impact of external forces such as information technology and globalization.

But the main force for change flows from a new level of competition and market-orientation among higher education institutions—a competition for students, faculty, research grants, athletic titles, revenue, rankings, and prestige. Competition promises the opportunity to improve learning, broaden access, or focus attention on efficient use of resources. But if not skillfully structured by thoughtful and strategic interventions of government, the market and growing competition will distort the purposes of higher education and further widen the gap between rhetoric and reality. It is, as a result, a time of both opportunity and risk.¹

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The New Competition

Compared to most other countries, the United States has always had a diverse and competitive system of higher education—part public, part private—and has functioned at least partially as a market. However, the basic nature of the higher education system is changing. Competition among traditional, nonprofit institutions is intensifying. Exacerbating this competition, the number of degree-granting for-profit universities and colleges has grown rapidly. Virtual or online programs have mushroomed over the last decade and now enroll millions of students. Corporate universities and certificate programs offer alternative ways to gain skills and credentials. The impact of technology on teaching and learning challenges every institution's ability to keep up and opens new opportunity for aggressive institutions. To complicate matters further, higher education is in the early stages of becoming a global enterprise, and colleges and universities must choose whether to go beyond their national boundaries or not.

These trends are amplified by a growing willingness on the part of political leaders to use market forces as a means of structuring higher education in order to increase the impact of the competition. Their hope is to improve access, affordability, and the quality of learning. The result is an evolution of the higher education sector toward operating far more as a market, with universities and colleges competing to supply the service of education, as opposed to the concept of higher education as a public sector structured principally by government regulation. As an example, in the old world, government would tend to depend on regulations to control costs. In the new world, government instead tends to hope that growing competition will slow the rapidly rising costs of higher education.

The students arriving at the admissions office door are also changing. They are more diverse (in age, race, ethnicity, socioeconomic status, understanding of technology, and nationality). This diversity of backgrounds brings to higher education a variety of demands that institutions have never faced before, from racial sensitivity to night classes to child care. A new consumerism is especially evident at selective institutions, where we see a well-documented demand for more amenities, better services, and

competitive financial aid packages. Students today are more willing to search the Internet to find programs with the quality and convenience they need and are more aware of the alternative programs and institutions available to them to help meet their goals. In short, the pressures for institutional change mount as many students become more demanding, sophisticated, and diverse consumers of higher education.

The competition of the past several decades was largely benign. Today it is more powerful, the consequences more serious. As a result of the changes under way, a new higher education landscape has emerged. Universities and colleges that were accustomed to an established place in their segment of higher education and in their geographic area now find that the competition crosses both these boundaries. At first it was easy to argue that these changes were “interesting but don’t affect our campus,” but today it is clear that every campus will be affected. In the United States, the impact of competition has been masked in part by the overall growth in the number of students applying for admission and by growth in various sources of funding. Now, with the downturn in the economy, funding sources are under pressure. As the competition escalates and the new providers multiply, a growing number of applicants will not be enough to save institutions lacking strong leadership and focus.

The Risks of a Market

One danger of the shift toward competition and market forces is that it is almost certain, unless addressed by specific policies, to exacerbate another trend already evident: a growing gap between the public purposes that need to be served by colleges and universities and the reality of how higher education is functioning. From the establishment of the first college in America in 1636, there has been an understanding that higher education, though it clearly provided private benefits, also served important community needs. Over the three-plus centuries since then, the public purposes have been formalized in the charters of institutions and in the laws of the federal and state governments. They have been steadily expanded from preparation of young men for leadership in the community to preparation of a broad share of the population for participation

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in the workforce and civic life; from polishing the elite to providing widespread social mobility; from generating scholarship aimed at supporting certain beliefs to supporting unfettered, evidence-based debate about social issues as well as wide-ranging and trustworthy research essential to modern society.

Higher education has been accorded a special place in society, separate from and above the marketplace through. Today, however, the growing influence of the market in higher education means that the search for truth is rivaled by a search for revenues. As the gap between higher education's rhetoric about its public purposes and the reality of its current performance grows, the special place of higher education—a place supported by the public because of the benefits it receives in return—is imperiled.

There is not automatically or necessarily a “market” for public purposes. Markets have brought important improvements to many sectors of society around the world; even so, they often bring in their wake unexpected and undesired effects, such as the problems that developed in the airline industry with deregulation, or the chaos that developed with the shift to a market for California electric power, or the frustrations that have emerged in the attempt to create for-profit schools.

The Need for Thoughtful Policy

The first critical question, then, is whether new state policies can create a market structure for the complex and expanding array of institutions that will serve the public purpose. Policy makers, particularly governors and legislators, face the need to formulate new policies that address these new circumstances. The demand for institutional accountability by political leaders has become a major issue. They recognize that higher education is ever more central to their goals of economic development and civic renewal, while at the same time more frustrating to deal with and more set in its ways. The result has been a growing interest in and experimentation with market forces as a means of structuring higher education. If the current regulatory approach cannot encourage institutional responsiveness to public needs, perhaps the market can—or so the theory goes.

But using market forces to achieve public purposes is not a simple task for policy makers. Establishing a successful market is not

as easy as decentralizing the sector. All markets need some regulation (the role of the Securities and Exchange Commission in regulating the financial markets is an example); most require some subsidized activity (support of the airline industry by the subsidy of air traffic control is such a case). A critical task for legislators is to determine where and how the government should intervene to make the market work effectively, without acceding to short-term pressures to overregulate. The Futures Project: Policy for Higher Education in a Changing World has been studying the impact of the market on higher education for the past four years (the authors are director and research staff of the Futures Project, a higher education think tank based at Brown University). As a result of our analysis, we believe the state has a strong interest in two issues: defining institutional missions and creating effective means of accountability. We also believe it should deregulate operational issues to a great extent.

These are not just American concerns. In country after country across the globe, in Denmark and China, in Austria and Australia, the demands of governments are changing—moving toward new approaches to higher education governance that encourage a greater level of competition, that permit more institutional autonomy but also call for greater responsiveness and accountability in return.

The Challenges of Policy Making

The task for legislators is difficult. Even for those in favor of the concept of the market, the temptation to regulate is deep-seated, and the chance to undermine institutional autonomy is ever-present. Concrete rule making is often easier to explain and take credit for than the abstract concept of a balanced “market.” The devotion of political parties to competing ideologies often makes the debate difficult.

Another difficulty is the risk of creating a winner-take-all competition that leads to the failure of useful institutions. Many economists looking at higher education as a market will make the case that we should expect that those institutions slow to respond will—and should—fail and that other, more nimble institutions will take their place. Certainly, with four thousand colleges and universities, the loss of one, or ten, or a hundred is not fatal. At the

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Futures Project, we believe that the public will be better served by a level of competition that fosters a determined attempt at institutional reform rather than by a Darwinian thinning of the ranks. There is much to preserve and much to gain from enhancing what we have developed.

Higher Education's Public Purposes

Colleges and universities were intended to be institutions that safeguard fundamental societal needs, most notably the search for truth. This often leads to efforts undertaken within the academy that make some parts of society uncomfortable (such as the recent investigation of the role of the slave trade in building the fortunes of prominent New England families, including several involved in founding the very universities that now foster the academic freedom that makes such research possible).

Some academics go so far as to argue that the search for truth is the only societal purpose the university should serve. This seems an extraordinarily narrow definition of higher education's role in a society that is as dependent on "knowledge" as is today's. In a world of market forces, technology, globalization, and the enormous capacity of new knowledge to enhance the public well-being, higher education institutions must be held, in Stanley Katz's phrase (2002, pp. 430–431), to "a higher standard than that to which corporations, and perhaps even governments, are held. . . . The university is in manifold ways the provider of common benefits and the doer of social good." This expands the obligations of colleges and universities to include functions such as creating a skilled and educated workforce, encouraging civic engagement in students, serving as an avenue for social mobility, and establishing links with primary and secondary education.

The Need for Institutional Strategy

The second critical question is whether individual colleges and universities can develop a strategy and the leadership necessary to succeed in and take advantage of this new climate.

To thrive and even survive into the future, each university and college needs a clear strategy that defines the role the institution

is determined to play and a concrete plan to implement that strategy. In other words, there must be institutional change that responds to the changing nature of the broader system of higher education. To achieve this requires different and more effective leadership, not just at the top but throughout the institution, leadership with the ability to draw the whole organization into the process of change, assessment, and constant and unremitting improvement. It requires as well a clear commitment to the institution's responsibilities to the public.

In the higher education market that has already begun to emerge, institutional leaders often feel compelled to chase revenues and rankings rather than concentrate on the public purposes of providing a high-quality education to an ever-expanding share of the population. How should each institution respond to these powerful new forces? How can each ensure that it thrives in the new world? How can each ensure that it is meeting the public purposes of society?

The Task Ahead

For the last three years, the Futures Project has been examining the growing competition and increasing role of market forces. What follows is a summary of what we have found and what we propose as a pathway forward. The project goal is first to understand the impact of these forces; then to help fashion appropriate policy initiatives and institutional strategies to respond to these changes; and finally to help create a debate among political leaders, academic leaders, and the public, a debate sustained and intense enough that American higher education moves thoughtfully and purposefully into the new century. Whether an effective, publicly oriented system can emerge during this period of change is no small issue. The university is one of society's great inventions. Much is at stake.

The task for policy makers is equally demanding. Creating an effective, socially responsible market in higher education is not as simple as just eliminating burdensome regulations. Market forces do not necessarily foster the public good; they often exacerbate societal inequities. Those without resources and without access to information are at a great disadvantage.

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The United States has learned from a variety of experiences—for-profit health care, the dot com boom and bust, deregulation of electricity—that market forces, left to themselves, do not necessarily serve society well. Observing the introduction of market-oriented education policies in New Zealand confirms the relevance of this risk to education. The appeal of the market as a force for responsiveness is gaining widespread attention, but creating an effective market requires thoughtfully structured strategic interventions by government to ensure that the market is a force supporting, not undermining, the public purposes of higher education.

Colleges and universities now live in a sea of changed expectations. Society needs a greater share of the population educated to a higher level of skill and knowledge for the workforce and for civic involvement. Society needs as well the expertise of universities and colleges applied to an expanding array of societal problems—from training corporate workers to preserving the environment to developing gene therapy. Meanwhile, the tasks facing institutions of higher education become ever more complex as the proliferation of knowledge complicates both education and research.

For each university and college, and for higher education as a whole, the new landscape offers greater opportunity than ever. The chance for well-led institutions to excel and contribute to the broader success of society has never been greater. But it is also a time of much greater risk.