

I. Introduction

This is a demanding, exciting—and risky—time for colleges and universities. Suddenly, political and academic leaders have found higher education 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 that 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 among higher education institutions—a competition for students, for faculty, for funding and for prestige. This is amplified by an accelerating influence of market forces in higher education and 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. The hope is to improve access, affordability and the quality of learning. The result is that there is an evolution of the higher education sector toward a market, the development of a trade in the service of education, as opposed to the concept of higher education as a public sector structured principally by government regulation.

The shift toward competition and market forces exacerbates another trend already evident—a growing gap between the public purpose 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, while it clearly provided private benefits, also served important communal 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 the preparation of young men for leadership in the community to the preparation of a broad share of the population for participation in the workforce and civic life; from polishing the elite to providing widespread social mobility; from the organization charged with scholarship to support certain beliefs to the home of unfettered, evidence-based, disinterested debate about issues of interest to the community as well as the home of wide-ranging and trusted research essential to modern society. But today, the growing influence of the market in higher education means that the search for truth is being 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 received in return—is imperiled.

There is not automatically or necessarily a “market” for these public purposes. While markets have brought important improvements to many sectors of society around the world, they often bring in their wake unexpected and undesired effects as, for example, 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 in the frustrations that have emerged in the attempt to create for-profit schools. (Build Buzz Wilms description of the impact of the market on three departments at UCLA.) Unless skillfully structured by thoughtful and strategic interventions of government, the market and the growing competition will further widen the gap between rhetoric and reality. It is, as a result, a time of both opportunity and risk.ⁱ

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, non-profit 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 the national boundaries or not.

The competition of the past several decades was largely benign. Today it is serious. As a result of the changes underway, a new higher education landscape has emerged. Competition—for students, faculty, research grants, athletic titles, revenue, rankings and prestige—has now become intense and of central concern. Universities and colleges that had become 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. While at first it was easy to argue that these changes were “interesting, but don't affect our campus,” 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 increasing number of students applying for admission and by the growth in various sources of funding. But, as the competition escalates and the new providers multiply, the advantage

of growing enrollment will not be enough to save institutions lacking strong leadership and focus. And with the downturn in the economy, funding sources are under pressure.

The students arriving at the admissions office door are also changing. They are more diverse (in age, race, ethnicity, interest, socioeconomic status, and nationality), more demanding in terms of the services they expect, more willing to search the Internet to find programs with the quality and convenience they need, and more aware of the alternative programs and institutions that are available to them to help meet their goals. The change is especially evident in the young freshmen, the majority of whom are not only attuned to interactive, visual learning made possible by technology, but also to using the Internet to find information about potential colleges (or even to find more attractive courses). In short, the pressures for institutional change mount as many students become more demanding, sophisticated and diverse consumers 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 the training of corporate workers to preserving the environment to developing gene therapy. Meanwhile, the tasks facing the institutions of higher education become ever more complex as the proliferation of knowledge complicates both education and research.

Policymakers, 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 more and more central to their goals of economic development and civic

renewal while at the same time more frustrating to deal with and 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.

But using market forces to achieve public purposes is not a simple task for policymakers. A successful market is not as simple as decentralizing the sector. All markets need some regulation (the role of the Securities and Exchange Commission in the regulation of the financial markets is an example), most require some subsidy (the support of the airline industry by the subsidy of air traffic control is one 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 over-regulate. In higher education, 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.

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 provide more institutional autonomy but that also call for greater responsiveness and accountability in return.

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 and often exacerbate societal inequities. Those without resources and without access to information are at a great disadvantage.

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 “higher standard”? How can policymakers intervene in strategic ways that structure a balanced market that reconciles the power of market forces with the centrality of public purpose?

The task for legislators is difficult. The temptation to regulate is deep seated. Concrete rule making is often easier to explain and defend than the abstract concept of a balanced “market,” even for political leaders committed to market concepts. The devotion of political parties to competing ideologies often makes the debate difficult.

The pressure for responsiveness poses another dilemma both for universities and colleges and for governments—responsiveness to which demands of the society? Should higher education institutions be asked to respond to every issue of strong public interest that comes along? Does the loudest and most visible expression of interest reflect the public need, or just the interests of a small constituency with ample resources? How should institutions decide where to apply energy and resources—big time athletics or the education of the less advantaged?

The issues involved in the structure of higher education are often subtle. Universities and colleges were designed for stability over the long term. They were intended, as well, 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 the society uncomfortable (such as the recent work of historians that has documented how large a role the slave trade played in building the fortunes of prominent New England families, including several significantly involved in the founding of the very universities that now provide the freedom to investigate 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 as dependent on “knowledge” as is today’s. In a world of market forces, technology, globalization, and the enormous capacity to enhance the public wellbeing, higher education institutions must be held to, in Stanley Katz’s phrase, “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.”ⁱⁱ This expands the obligations of colleges and universities to include functions such as creating a skilled and educated workforce, encouraging civic engagement in students, and establishing links with primary and secondary education.

For each institution, and for higher education as a whole, the new landscape offers greater opportunity than ever. The chance for well-led institutions to excel and to contribute to the broader success of society has never been greater. But it is also a time of much greater risk. We have learned from a variety of experiences—for-profit healthcare, the dot.com boom and bust, deregulation of electricity in the US, market-oriented education policies in New Zealand—that market forces, left to themselves, do not necessarily serve society well. While the appeal of the market as a force for

responsiveness is gaining widespread attention, creating an effective market is not simple. Thoughtfully structured strategic interventions by government will be essential, interventions designed to ensure that the force of the market is a force supporting the public purposes of higher education.

[Other examples of market forces gone astray.]

[What are the dangers of unchanneled market forces?]

Unlike the last several decades, to thrive and even to survive into the future, each university and college will need 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 will require 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, of assessment and improvement. It requires, as well, a clear commitment to the institution's responsibilities to the public.

For the last three years the Futures Project: Policy for Higher Education in a Changing World has been examining the growing competition and the increasing role of market forces. The following is a summary of what we have found, and what we propose as a pathway forward. The Project goal is to first 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 sustained and intense enough so that American higher education moves thoughtfully and purposefully into the new century. Whether an effective,

publicity oriented system can emerge during this period of change is no small issue. The college and the university, is one society's great inventions. Much is at stake.

ⁱ Much has been written about the growing market and competition in higher education by other researchers. See, for example, MacTaggart, T. J. & Associates. *Seeking Excellence Through Independence*. San Francisco: Jossey-Bass Publishers, 1998; Kirp, D.L., and Roberts, P.S. *Shakespeare, Einstein and the Bottom Line: The Marketing of Higher Education* (Cambridge, MA: Harvard University Press, to be published fall 2003); Berdahl, R. "Institutional Diversity, Markets and State Steering: Public Ends, Private Means." Paper presented at the 23rd Annual EAIR Forum, Porto, Portugal, Sept. 9-12, 2001; Brewer, D. J., Gates, S. M., and Goldman, C. A. *In Pursuit of Prestige: Strategy and Competition in US Higher Education, Technical Papers*. RAND, June 2001; Bok, D. *Universities in the Marketplace: The Commercialization of Higher Education*. Princeton, NJ: Princeton University Press, 2003.

Mario Martinez and Richard Richardson analyzed governance models in New Jersey and New Mexico, and concluded that "monopoly and regulated markets may produce strong performance in singular areas, but balanced markets produce consistent performance across a range of outcomes." See Martinez, M.C. and Richardson, R.C. (March 2003). "A View of the Market through Studies of Policy and Governance." In "Academic Governance in a Protean Environment." Edited by William G. Tierney. *American Behavioral Scientist*, March 2003, 46(7), 883-901.

ⁱⁱ Stanley N. Katz, "Excellence is by No Means Enough," Common Knowledge 8.3 (2002) pp. 427-438.