



**The OBSERVATORY**  
on borderless higher education

# R e p o r t

## **Trading Public Good in the Higher Education Market**

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## “Trading Public Good in the Higher Education Market”

*Imagine a forest of stately trees overgrown by weeds and underbrush. The forest would benefit, even flourish, from a fire—a controlled burn. However, that same fire, if not carefully designed and executed, could blaze into a wildfire that threatens the very existence of the forest. Now imagine higher education as a forest of stately institutions, hampered by the low quality of teaching and learning found in many universities, a lack of responsiveness and innovation, and limited access for significant parts of the population. Competition offers the same contradiction as the controlled burn. If applied wisely, competition can force higher education to fix these problems, but competition also has the potential to threaten crucial attributes of the system. Don't strike that match yet.*

Higher education has become far more competitive, shaped more by the market, less by regulation. In the past, American colleges and universities have been slow to respond to the demands of society. Frustrated by the slow pace of change, policymakers no longer feel the need to protect institutions from competition, turning instead to the power of market forces as the lever needed to reform higher education. We at the Futures Project believe that competition offers higher education the opportunity to fix stubborn problems. However, just like the controlled burn, the dangers are great. Competition is a force that the higher education community cannot ignore. The key is finding policy solutions that help steer the market in ways that benefit society and serve the greater public good.

### Why are market forces gaining power in higher education - and what should be done?

Pressures from policy makers and the public to improve teacher education, control costs, and measure learner outcomes have not led to serious change or reform in higher education. Policy makers, long frustrated by the academy's resistance to change, find the power of the market to drive change alluring. Academics who protest the impropriety of a market in higher education, and seek ways for governmental regulation to protect established institutions, are increasingly finding an unsympathetic audience among policy makers. Furthermore, the slow response of traditional higher education institutions has left the door open to competition, and now new providers such as for-profit degree-granting institutions, virtual providers, and consortia of traditional institutions, see an opportunity to capture market share.

Charles L. Schultze wrote of *The Public Use of Private Interest*, or the ability to use private interests in the market to society's benefit. In higher education, the sheer strength of market forces, if applied wisely to areas of concern, can be leveraged to fill unmet need and to address longstanding flaws, improving the system so that it can better contribute to the public good. For example, access to education in remote areas can be broadened via virtual education, and competition may force a hard look at escalating tuition and costs. There are, therefore, aspects of the market that are worth encouraging.

*“Harnessing the ‘base’ motive of material self-interest to promote the common good is perhaps the most important social invention mankind has yet achieved.”*

—Charles L. Schultze, 1977

However, in the United States, we know from the experience of healthcare reform and the deregulation of electricity in California that market forces are far from benign. While often touted as a silver bullet, in reality an unrestrained market can have significant downsides, and often does not serve society's needs well. For example, a particularly troubling market downside is that, to participate in a market, one must be able to pay. If higher education is left to a free market, society is faced with the risk that a sizable part of the population—those unable to afford higher education's substantial cost—would be eliminated from participation. This is the type of market downside that can be avoided with careful planning. Avoiding such downside risks is much easier than correcting problems once they have occurred. When market forces are in play, it is better to steer through the threats than drift into unanticipated consequences.

The Futures Project: Policy for Higher Education in a Changing World, a higher education think tank based at Brown University in the United States, has spent the past two years analyzing the impact of competition and market forces on higher education all over the world and researching potential policy innovations. We have concluded that the market has

arrived in higher education. There is no turning back. Since the Futures Project came into being two and a half years ago, there has been a dramatic shift in the willingness of university and college leaders to recognize the seriousness of the changes underway and, increasingly, to see the need for action. We are now working with political and academic leaders to develop policies and strategies that will help higher education systems and institutions in the United States to navigate through the new competition.

## Competition heats up in the United States

### *Deregulating California's Energy Market*

*"Opinions differ on what...doomed the California experiment. There is, however, general agreement now that most of the missteps flowed from the faulty assumption that consumers could get all the benefits of free markets without assuming their risks."*

*—The Washington Post, 2001<sup>ii</sup>*

The higher education system in the United States has always considered itself competitive. Institutions have vied for students, research dollars, athletic titles and prestige. However, the reality is that the competition—which never reached the cutthroat levels found in other sectors—was muted by regulation and geography. In the 1990's, however, the struggle intensified. Public universities created "honors colleges" to appeal to top students; profitable enterprises such as continuing education increased in popularity; institutions used tuition discounts to lure high-performing students to campuses. The result is markedly increased competition within the boundaries of traditional activity.

## ***New competitors fill demand***

The 21<sup>st</sup> Century is ringing in an entirely new level of competition, much of it coming from sources not typically seen before within the boundaries of higher education. One of the most visible and talked-about trends in higher education is the growth in numbers and types of organizations offering courses. A quick scan of the landscape reveals institutions new and old that bear labels such as virtual, for-profit, open, corporate, technical, consortia, franchise, museum, publisher, degree-granting, not to mention the "non"-labels: non-profit, non-elite, non-traditional, non-degree-granting. The reality is that many institutions are now hybrids dabbling in a number of new forms; few can be pigeon-holed into one category. Private, non-profit universities are leaping into for-profit, virtual consortia that include partners such as corporations and museums—definitely non-traditional.

For-profit providers, historically seen as peripheral (e.g., truck driving schools and beauty schools), are making inroads into the core. Over the past ten years, the number of two-year for-profit degree-granting institutions in the United States grew by 78% and the number of four-year institutions grew by 266%, bringing the total number to approximately 625 institutions enrolling 365,000 students.<sup>iii</sup> Many for-profits are offering traditional degrees, such as associate's, bachelor's, master's and even PhD's. What's more, degrees are awarded in traditional disciplines, such as the humanities, law, engineering and psychology.

Institutions offering virtual courses are another source of competition. Research from Merrill Lynch forecasts that online student enrollments will rise to 2.2 million by 2002, up 210 percent from 1998 enrollments of 710,000.<sup>iv</sup> A Market Data Retrieval study found that in 2000 70 percent of traditional two- and four-year colleges and universities offered online courses.<sup>v</sup> Clearly, virtual education, building on established forms of education delivered at a distance, is diminishing the importance of place, opening the door for students to take courses from institutions on every continent. A mechanical engineer in South Dakota can stay with her job and earn a master's degree from a university in Asia or Europe. Virtual education has also made a powerful breakthrough: it has legitimized distance education by shrouding it in the mystique of high-tech. Distance education is now openly practiced by the most selective and elite universities.

However, one of the most appealing aspects of virtual education is its promise to affect change on traditional campuses and in traditional classrooms by exposing flaws in current practices. For example, Bruce N. Chaloux, director of the Southern Regional Education Board's Electronic Campus, a large consortia serving as the virtual arm of many universities and colleges in the southern U.S., explains that the convenience of virtual education is affecting the expectations of students in traditional campus settings:

As traditional colleges respond to the growing market for online education...they find that what adult students seek in a nontraditional environment -- "services 24 by 7" -- is what the 18-year-old who lives in the dormitory wants, too.<sup>vi</sup>

An ever-expanding array of corporations, museums, and publishers have also entered the fray. Corporate universities, which now number over 2000, differ from traditional training departments by 'pull[ing] together all learning in an organization by managing education as a business project.' Some, such as American Express and Bell Atlantic, partner with traditional universities to offer degrees, while others create their own programs.<sup>vii</sup> IT certification is a booming industry, with nearly 300 institutions granting certificates to students all over the world.<sup>viii</sup> The publishers Thomson Learning and Pearson PLC are pursuing online ventures. Kaplan, Inc., a wholly owned subsidiary of the Washington Post Company traditionally known for its test prep courses, now owns a number of institutions, including the online Concord School of Law, which they group under the heading of "The Kaplan Colleges." All of these activities are competing with traditional higher education institutions for students, usurping potential revenue streams. They are also reminders that the market has responded to a demand that institutions of higher education missed or ignored.

The booming stock market of the 1990's and the spectacular success of some of the for-profit universities and colleges led to a variety of for-profit ventures in higher education. For-profit subsidiaries of traditional institutions, consortia led by for-profit entrepreneurs, and publishers all went in search of revenues, offering to sell online courses, modules, or digitized "scholarly materials" to universities, community colleges, corporations and even individuals. Instead of an easy profit, some of these ventures have found the going tough—companies selling courses (such as UNext, Fathom and Global Education Network) have been forced to cut back and reorganize. Some (such as Harcourt University and Virtual Temple) have been forced to close.

While some in higher education have seen the difficulties faced by some of these new ventures as a sure sign that there is no market for online courses, they are more likely a natural shakeout of the market. The online arms of established universities and community colleges (such as the University of Maryland University College Online, Pennsylvania State University's World Campus, or the Community Colleges of Colorado Online), or the for-profit universities (such as the University of Phoenix), which have built their online activities on their existing capacity and infrastructure, continue to grow steadily.

### ***New technologies improve teaching and learning***

A still more powerful impact of virtual education will be that innovative uses of technology to improve teaching and learning, developed initially for virtual use, will cross over into the traditional classroom. New technologies are being used to bring pedagogy in line with what we have always known: that students learn better, and remember longer, when they are actively engaged in the learning process. Technology makes active engagement easier and more practical than it has ever been before. For example, Deanna Raineri, a molecular biologist from the University of Illinois, Urbana-Champaign has incorporated technology modules into her undergraduate biology class, such as "animations of interacting molecules" and virtual labs that help students to diagnose diseases. Raineri is enthusiastic about the changes to her class, reporting improved scores on quizzes covering applied questions, better course evaluations, and an increase in data interpretation by students.<sup>ix</sup>

*"Each year, hundreds of thousands of U.S. students get their only exposure to science in an intro[ductory] class—and most leave without understanding how science works or with any desire to take further courses. [...] Too many instructors...still engage in the stalest form of pedagogy: nonstop lectures to hundreds of faceless students who sit and listen passively."  
— Science, August 2001<sup>x</sup>*

A number of institutions, such as the University of Phoenix, the British Open University, Virginia Tech, and Rensselaer Polytechnic Institute, are blending features such as technology, space, active learning, and distance to create new learning experiences that are appealing to students because they are more interesting, conform to their busy lifestyles, or help them to understand what seemed abstract or confusing. These factors are functioning as what Clayton Christensen calls "disruptive technologies," or products or services that erode the market share of existing providers by offering products that appeal to a segment of the market because they are faster, easier or cheaper, or address the needs of groups previously ignored.<sup>xi</sup>

The Futures Project believes that this use of technology will become a source of competitive advantage for some colleges and universities. Those institutions that become known for offering exciting learning experiences, and for producing smart, engaged graduates who are technically competent as well, will have an edge over those that continue to rely on the traditional lecture. Already we are seeing competition to be the “most wired,” comparisons of expenditures on technologies, and web sites and campus tours laced with technologies designed to impress potential students.

### ***Today’s students have different needs and new ways of attending college***

The Internet has changed the way students search for colleges and universities. As providers of higher education expand and professionalize their web sites, today’s students are finding it easier to learn about their options via the Internet. Faced with such a broad array of choices, students are changing their patterns of attendance. Students are attending multiple institutions; almost half of all students attend more than one institution prior to earning their degree.<sup>xii</sup> A great number of students are enrolling in a mixture of online and classroom courses. Students are finishing high school courses, or getting started on college courses early, through virtual education. In the U.S., 15 percent of the high schools offer virtual courses and 26 states have started virtual high schools. Enrollments at Florida Virtual School have reached 7,000 students, while enrollments at Massachusetts-based Virtual High School are nearing 5,000 students.<sup>xiii</sup>

Students are returning to education throughout their lives. As enrollments in higher education continue to rise, and as an expanded population of students comes to higher education—students who are older, are working, have families—students will bring a different set of expectations with them. Many of these students are seeking an education that melds quality and convenience, and they are a lucrative market because many have employers willing to pay tuition. This new savviness and mobility on the part of students means that institutions will be pressed to pay more attention to the quality of their courses. All universities have infamous courses that are too large or taught by professors known for being boring or out-of-date. There is now little to stop a student from opting to pursue a higher-quality course elsewhere—online or from a neighboring institution.

### **Relevance beyond the U.S.: the trends are remarkably similar across the globe**

The Futures Project’s investigation of change in higher education, which extended across the globe, led to an unexpected revelation: the forces affecting higher education around the world are strikingly similar. This is true in at least four important areas: expanding enrollments; the growth of new competitors, virtual education and consortia; the global activity of many institutions; and the tendency for policy makers to use market forces as levers for change in higher education.

Expansion of enrollments, accompanied by shifts in student demands and expectations, is a global phenomenon. The number of tertiary students worldwide doubled in size in just twenty years, growing from 40.3 million students in 1975 to 80.5 million students in 1995.<sup>xiv</sup> In Asia alone, it is estimated that the demand for higher education will grow by 48 million students between 1995 and 2020, which equates to a need for 37,000 new university places each week.<sup>xv</sup> In every corner of the world, universities are being pushed toward change by the new demands of this expanded population of students.

New competitors are challenging traditional institutions everywhere. In response to expanding enrollments and the demands of the new economy, new providers have been proliferating in many countries, even in countries with historically centralized, public systems. In Poland, private institutions were virtually non-existent in 1989. Now, more than 180 private institutions have captured a third of the student body.<sup>xvi</sup> In Malaysia, private higher education institutions rose in number from 156 in 1992 to 564 in 1999.<sup>xvii</sup> The need to provide more access to workforce training and lifelong education has also created a growing worldwide interest in the U.S. model of the community college. Already, community colleges are popping up in China, Mexico and India.<sup>xviii</sup>

Virtual education is borderless and global by its very nature. Many virtual consortia are global by design, with partners from countries around the world. The Asian-based U21global is a partnership between Thomson Learning and 15 universities from Europe, North America and East Asia.<sup>xix</sup> South Korea’s Ewha Womans University and eight other local

colleges have formed an “international cyberuniversity” to offer courses in women’s and Korean studies to 30 institutions around the world.<sup>xx</sup> Fathom.com is a consortium of 13 institutions including Columbia University, Cambridge University Press, the New York Public Library and the London School of Economics and Political Science.<sup>xxi</sup> OntarioLearn.com is a consortium of 22 community colleges in Ontario partnering to offer online courses globally.<sup>xxii</sup>

Virtual education is not the only way that institutions are crossing borders. Universities from the UK have a longstanding history of franchising the provision of higher education overseas. The Open University, which recently established operations in the United States, serves over 260,000 students in 41 countries with campuses or partnerships in countries such as Brazil, Greece, Russia, and India.<sup>xxiii</sup> The R.M.I.T. University of Australia was the first foreign-owned institution to receive approval to establish a presence in Vietnam.<sup>xxiv</sup> The Teikyo University Group of Japan owns or has links with institutions ranging from kindergartens to universities in the U.S., UK, Netherlands, Germany, Hong Kong and Malaysia.<sup>xxv</sup> The University of Phoenix, a private for-profit U.S. university, is expanding this year into Brazil, India and Mexico.<sup>xxvi</sup> Sylvan Learning Systems, in an effort to create an international chain of private, for-profit universities, has already purchased controlling interests in universities in Mexico, Switzerland, Chile, Spain and the U.S.<sup>xxvii</sup>

Finally, we’re seeing in country after country policy makers interested in using market forces to gain responsiveness and accountability. In a number of countries, free market principles are being encouraged, ranging from allowing the growth of private and for-profit institutions in China and Malaysia, to introducing tuition fees in the UK, to proactively injecting competition into the systems in Australia and New Zealand. In general, higher education systems the world over are faced with limits on public funding and the need to seek external revenue sources.

## **Before tackling strategy & policy: understanding the issues**

### ***Heeding the warnings***

Competitive forces have entered segments of the American system of higher education before, going unnoticed until it is seemingly too late. To take one example, lucrative research contracts with industry sponsors seemed a boon at first. However, as increasing restrictions on researchers’ objectivity, such as a sponsoring corporation’s right to review results prior to publication, became more prevalent, the research paradigm shifted. Recently, there have been cases covered in the press where professors have refused to abide by the contracts they signed with corporations, publishing research results the corporations did not like. These cases put universities in an awkward position, caught between the professor’s academic freedom and the corporation’s contract. However, these exposed cases are just the tip of the iceberg. Even more ominous are the cases that have not been exposed, where professors did change research results to satisfy the terms of corporate contracts. We now live in a world where research results are regularly called into question.<sup>xxviii</sup>

It is, of course, concerning when any part of higher education strays off course and loses its ability to serve society in the way intended. But current market trends are even more threatening because many of the resulting changes affect the core of the system: teaching and learning. The Futures Project suggests that a widespread debate and a renewed compact with the public is essential to create new, effective institutional strategies and system-wide policies.

### ***Engaging in debate***

Policy development would benefit from a serious, active discussion about what role higher education should play in society and how the system should be structured. This discussion must include institutional leaders, policy makers, and the public. Despite the evidence that a great number of political leaders favor the growth of market forces, many institutional leaders are reluctant to think in radically new terms, even as policy makers are encouraging the emergence of market forces all around them. There is still a tendency to cling to existing programmes and a hesitancy to ask hard questions about whether the university is serving students or the society as effectively as it might, even among presidents who recognize that the end of the status quo is at hand. Institutional leaders and policy makers must overcome their traditional reluctance to engage one another in serious discussion about the structure, and future, of higher education.

## ***A renewed compact with the public***

Higher education has long occupied a special place in society. Viewed as the creator of knowledge, the producer of leaders, and the engine of the economy, higher education's role has been considered critical to society's well being. Equally if not more important, higher education has been seen as the intellectual conscience of society, above the marketplace throng. In return, higher education has received public support, been exempted from taxation and often screened from the scrutiny of the public eye. Much of that has now changed.

In the U.S., higher education has now become a more central political issue because it is seen as so important to society's success. This centrality, so long desired by higher education, has turned out to have both benefits and liabilities—it brings attention and resources but it also brings demands for accountability. Policy makers, more than ever before, want an assurance of quality and want to see the results of their investments. We see the same newfound centrality and demand for accountability appearing in widely different countries.

*"Discomfort with competition is an important value in and of itself within HE. It helps to prescribe the limits of fair and unfair competition. It signals the need to remember that [higher education] is a public good with benefits that go beyond individual beneficiaries and institutions. Indeed there is a growing recognition of the global nature of this public good given the interconnectedness of the global community."*

—Dr. Mamphela Ramphele, 2001<sup>xxix</sup>

At the same time that higher education is wrestling with its new role in the spotlight, its increasing commercialism and closeness to the market threaten to undermine the public's perception of higher education as an arena for open and intellectual debate. The rapid changes in our society, fueled by factors such as technology, globalization, and shifting demographics, have drawn colleges and universities into a competitive world in which relevance and the search for revenue have become commonplace. While the notion that an academic institution "competes" in a "market" offends many, few can deny that those words now echo through the hallowed halls of academe.

The terrorist attacks in the United States on September 11, 2001 have raised the question of the public role of American higher education in a new, more urgent way. At a time when emotions and ideology are so strong, we believe that thoughtfulness and balance are needed as never before. Higher education, long considered a building block of democracy, needs to champion its role in providing open space for debate, searching for evidence, educating engaged citizens, and inspiring a tolerance and appreciation of diversity. If the voices of the academy are not heard in this critical time, if the public and policy makers do not see higher education stepping forward in service to those who have supported its "special" role in the past, higher education will have lost a critical opportunity to reaffirm its status as a public good even in its new market orientation. This reaffirmation must come from within. Academic leaders must take this opportunity to define higher education's role in society as a source of knowledge, citizenship, social mobility, and scholarship.

## **Institutional strategies for the future**

In this time of uncertainty and competition, in order to thrive, and even to survive, we believe every institution will need to develop a strategy. The leadership at each institution will need to assess the landscape and make active decisions about the direction of the institution rather than drifting into the future.

The first step will be to define the institution's niche. While discussions about prestige are often monopolized by the elite few—a handful of research universities and reputable liberal arts colleges—the reality is that nearly all of the 3,400 non-profit higher education institutions in the U.S. are striving to build prestige and reach the same goals. Every institution should not attempt to do everything, nor should all institutions aspire to become prestigious research universities. Each institution will need to evaluate its strengths and weaknesses. Each will need an honest assessment of what type of student it attracts, what that student population needs, what types of research, if any, it should pursue, and what level of service to the community it should support. With that niche in mind, leaders will need to screen each opportunity that comes along and decide if it fits the new strategy. Every decision should stem from the strategy—from deciding what types of programmes to offer, to whether or not to get involved in offering virtual courses, to determining how much of an investment to make in technology.

Institutions are also competing to ensure a place for themselves in the new world and to capture future market share. In our rapidly changing world, many institutions have realized that the future is an unknown and that the current model of prestige, where prestige is assumed to equal quality, may not last. Some institutions are striving for an image of technological prowess, economic power, collaboration, and entrepreneurial spirit, linking their reputation to the culture of the knowledge society.

Opportunities to collaborate are also changing the image of the modern university. Links with other academic partners, industry, and government are expanding the types of programmes offered, eliminating redundancies, and making programmes more relevant to employers' needs while capitalizing on economies of scale. Many institutions are aggressively pursuing such partnerships. For example, the UK's Leeds University Business School has sought partnerships in industry as well as academe. It now has ties to Yorkshire Water, Yorkshire Bank, the BBC, and Zhejiang University in China, and Leeds is working on a new relationship with Queen's University in Ontario, Canada.

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To navigate these changes will require a leader with skills quite different from those required in the past. Until now, academic leaders were typically chosen from the faculty and brought little or no leadership experience. Today's academic leaders need a number of specific skills that must be nurtured. They must have the ability to build and maintain alliances, to draw people together, to lead through change, to engender a campus-wide entrepreneurial spirit. Most importantly, they must have a vision for the university, and the ability to turn that vision into a strategy and see it through to reality.

*"Most business schools are all too aware of the constraints of their size and resources relative to the demands of their clients. This is why the possibility of finding a new partner, be it a school in another country or a dynamic corporation, is so enticing."*

—*Financial Times*, 2001<sup>xxx</sup>

## Shifting the effects of the market to serve society

There have been attempts made by several governments to bring aspects of the market to a halt. For example, efforts to block virtual courses have been seen in Thailand and Brazil. In Brazil, the government announced in 2000 that degrees from programmes fully or partly sponsored by foreign institutions would not be recognized.<sup>xxxiii</sup> In Thailand, the government decides whether to recognize the credentials of distance education graduates on a case-by-case basis.<sup>xxxiv</sup> The Futures Project does not believe this is wise. It is true that virtual education poses competition to established institutions, and there are valid concerns about how to ensure the quality of education offered. However, shunning virtual education without first trying to rectify those issues simply results in denying alternatives to students and society. Via policy, we can find a middle ground.

### *The Middle Ground*

*"We segregate our approaches to social organization into two watertight compartments—command-and-control techniques for public intervention and economic incentives for the private economy. Yet there is a spectrum of alternatives between the two extremes waiting to be created through the public use of private interest. Why do we act as if the middle ground never existed?"*

—*Charles L. Schultze*, 1977<sup>xxxii</sup>

Market purists argue that the market works best on its own, and attempts to regulate the market are sure to distort the benefits produced. However, in reality it is almost impossible

*"The magic of the market is no sure thing," said William Hogan, a utility economist at Harvard University.*

*"Electricity is an example of an industry where introducing competition leads not to less regulation, only different regulation. [These] markets are made, they don't just happen."*

—*The Washington Post*, 2001<sup>xxxv</sup>

to find a truly free market. All markets are structured, via regulation, to some degree.<sup>xxxvi</sup> We at the Futures Project believe that an untrammelled market in higher education will not serve society well, but some aspects of a market could be beneficial. So, the question at hand is, how do we create a market for the public good? The core idea here goes beyond just using private interest for public good:

- How do we overlay a societal frame on policy decisions, so that the welfare of society and its students becomes the ultimate goal?
- What incentives can be used to redefine competition so that institutions compete to fulfill the public good?



The most difficult challenge that lies ahead will be the formulation and implementation of policy innovations that help shape market forces. The Futures Project, viewing these questions from a societal frame, has chosen to focus on three policy options for the U.S. that will forge a high quality education, accessible to an ever-larger share of the population, which is responsive and accountable to society. The policy questions we are addressing are:

- 1) *How can policy encourage institutions to measure and report learner outcomes so that the market is operating based on good information about institutional quality and performance?*

In a higher education market striving for the public good, the delivery of high quality teaching and learning is a key objective. Advocates of a free market who accept this premise would argue that competition and student choice will weed out low-quality operations and drive up enrollments at high-quality institutions. Unfortunately, the public's knowledge of quality in higher education is imperfect. If quality is to be critical to the functioning of the market, the process of assuring quality and putting good information into the hands of consumers requires fixing. Policies that position true quality as a competitive advantage and require institutions to measure and report on learner outcomes would better serve society.

The complaints lodged against how higher education assures quality are not new. There are three main factors that distort the process. First, current measures of quality, found around the world, focus on inputs—number of tenured faculty, financial stability—that do not provide meaningful information about the outcomes of the student learning process. These input measures are further distorted by the aura of prestige. It is true that the impact on student choice of institutional prestige in the U.S., which is propagated by such intangibles as the age of the institution or the social standing of the students it attracts, is limited to an elite subset of students. But, the impact upon how other institutions see themselves, and the goals they set for themselves, cascade through the system. Finally, the process of putting information into the hands of American students is currently driven by private rankings such as *US News & World Report*, which use data such as size of endowments or number of applicants, data that most in higher education agree tells the student little or nothing about the student experience.

*"To rebuild an alternative philosophy of political economy, one must first shake the hegemony of the laissez-faire market. [...] The last intellectual refuge of the marketizer is the claim that, even if markets sometimes fail, political interferences are likely only to compound those failures. [...] Governments seek to override markets for a variety of purposes—to stabilize, to promote growth, to limit detrimental side effects, to temper inequalities, to cultivate civic virtues. [...] In the search for strategies to temper and tame the market, we need to seek ones that are within the competence of the state, that restore vitality to the enterprise of politics, and nourish rather than overload civil society."*

There is broad recognition of quality's new currency. The desire to increase the mobility of students and their credentials, evident in the activities of such supranational bodies as the European Commission and Mercosur, is creating pressure for countries to develop comparable quality assurance mechanisms. The increased activity of institutions crossing borders physically and virtually is pushing governments to find ways of evaluating the quality of foreign institutions. New technologies and virtual education are redefining the classroom, the institution, and the learning process, forcing educators to rethink traditional means of assessment and quality assurance. All of these recent trends raise critical questions about how to measure learner outcomes in ways that are useful to

students and governments, at home and in other countries. The European higher education leaders that convened in Bologna in 1999 agreed that the competitive emphasis ought to be on "high quality rather than by attempting to compete on prices[...]. In an increasingly competitive international market in higher education, quality will have to become a distinguishing characteristic guiding consumers and institutions in their strategic behavior."<sup>xxxvii</sup> At a global higher education symposium held in June 2001, "Privileges Lost, Responsibilities Gained: Reconstructing Higher Education," attendees agreed that quality would be the most important and the most complex challenge facing higher education in the future.<sup>xxxviii</sup> The time is ripe for finding new ways of assuring quality.

To that end, the Futures Project has been investigating how the market can be structured so that institutions are competing not on such false representations as price or prestige, but on the quality of education delivered to students. This requires policies designed to encourage assessment of learner outcomes, as well as policies that put that information into the hands of students and the public.

One strong conclusion of the Futures Project is that before designing assessments of learner outcomes, institutions need to spend time evaluating their missions, determining which skills are critical for their graduates, and fostering an assessment culture that is tied to institutional mission and evolves with the institution. The goal of these assessments must be tied to improving teaching and learning. Assessments that help institutions to uncover weaknesses and advance the teaching and learning process will result in competitive advantage.

The Futures Project has also concluded that true measurement of learner outcomes requires multiple assessments. A single high-stakes test is not advisable, especially not in the political context of the United States. However, there is much to be learned from the efforts of countries such as Brazil that are experimenting with assessments that provide comparable data that can be used to hold institutions accountable for the performance of their students. At the elementary and secondary education level in the U.S., such assessments exist in the form of the National Assessment of Educational Progress (NAEP). Is a NAEP for higher education, used to provide policy makers with a benchmark of comparable data about the performance of students at different stages of their postsecondary education, viable? The Futures Project believes such a test is a viable option, but it cannot be the only solution. An assessment such as NAEP, combined with other measures, is likely to be more comprehensive, accurate and fair.

A number of institutions in the U.S., including Alverno College and the University of Phoenix, have instituted rigorous assessments of learner outcomes that are in keeping with the missions of the institutions. The methods used range from surveys of employers and alumni, to tests that measure value-added in terms of knowledge held before and after a course, to portfolios of student work. To encourage more institutions to evaluate their teaching missions and then develop measurements of learner outcomes in line with those missions, policymakers might consider using incentives in the form of competitive grants. The National Survey of Student Engagement (NSSE) is another example of an assessment that provides a different type of data that is highly relevant for students and parents. NSSE is a new assessment designed to measure "student participation in programs and activities that institutions provide for their learning and personal development."<sup>xxxix</sup> NSSE complements measures of learner outcomes by providing meaningful information about the types of experiences students have at a college or university, such as the level of interaction with faculty.

Finally, measuring learner outcomes is only half the battle. We know that good information is what makes a market work. For higher education, the next vital step is to put information about learner outcomes into the hands of those who need it most: students. Governments can require the collection and dissemination, via reports and web sites, of good information about the quality of institutions. In New York, the elementary and secondary schools do this already. There is a continuing role for private, specialized sources of information as well, such as *U.S. News and World Report*, but policy can ensure that good information is available to the public.

## 2) *How can policy turn students who cannot pay or will be expensive to educate into a target market?*

As society strives to educate a greater share of the population to be active citizens prepared for the new economy, higher education institutions face a new demand. They will need to educate more and more students from low-income backgrounds and students who did not enjoy educational advantages as children. The concern of the Futures Project is that, in a market-oriented system of higher education, the students who cannot pay or who require more resources (and are therefore more expensive to educate) will be excluded. This trend is already evident in the United States where tuition discounting is turning the admissions process into a price war. Exclusionary policies are not only undemocratic, but as the New Economy demands more skilled workers the continued exclusion of low-income students will be harmful in any country.

The objective, then, is to develop policies that make certain students more attractive, effectively turning them into a target market. Under these conditions, the higher education market would be competing for a public good, namely a larger and more diverse share of the population receiving a college education. Financial aid in the U.S. today enables

students from low-income backgrounds to pay tuition, but does not offer an incentive for an institution to enroll low-income students. In principle, is it feasible to change the financial aid system to create an incentive for institutions to enroll and graduate low-income students?

As an illustrative example, if a student who can pay his or her own tuition arrives at campus with \$5,000, the low-income student's financial aid package is \$6,000, making the low-income student more attractive to the university. What if the amount then increases each year up to four or five years so that the institution has an incentive to ensure that the student continues and graduates as well? Because there is an existing recognition of the need to educate more and more of the population, the incentive does not necessarily have to be large—just enough to give the student an edge.

*“My point is not that the unfettered market is always superior, but rather that its buy-sell arrangements have a great social advantage. In designing techniques for collective intervention, the gains from preserving some or all of those arrangements should be given significant weight. Occasions to do so come up all the time: If government is to assist higher education, should it aid individual students who can then “buy” education where they choose or should it directly subsidize colleges and universities? Should federal manpower-training subsidies take the form, as they do now, of grants to institutions or of vouchers to individuals, à la the GI Bill of Rights?”*

— Charles L. Schultze, 1977

accountability and responsiveness.

At the same time, the introduction of competition has fundamentally changed the higher education system. Gone are the days of strict catchment areas—geographic and intellectual—that traditionally defined a school's typical pool of students. Now, up against tuition discounting, virtual education, and new competitors, colleges and universities vie with one another for students more than ever before. To be a formidable competitor in these times requires, among other skills, responsiveness, flexibility, speed—attributes not typically ascribed to the academy.

The Futures Project has been investigating new structures for higher education in the U.S. and abroad. In the attempts to encourage new tertiary competitors in Malaysia, the contracts between government and institutions in France and the UK, and the charter universities found in Sweden and the U.S., there exists a common thread: the push for accountability and responsiveness, and the increasing reliance on market forces, can be found around the world.

Through our policy research, we have identified promising ideas that can be adapted and customized for use by public higher education systems in the U.S. The most promising idea uncovered thus far is that of charter universities. The main elements of a charter university might include:

- The state maintains ownership of institutional assets;
- The state and institution negotiate a fixed annual budget, adjusted for inflation, with the agreement that the institution will not request further state support;
- The institution is then responsible for making up for any lost revenues through fundraising, tuition revenues and contracts with business and industry;

Consider the approach of the Higher Education Funding Council of England (HEFCE). HEFCE has introduced “student premiums,” which direct extra funding to institutions educating part-time, mature, and under-represented groups. The basis for the student premiums “recognises that some types of student[s] generate greater demands on resources.”<sup>x1</sup> In many ways, this is the principle that made the GI Bill and the Pell Grant so successful in their original forms. The GI Bill of Rights from 1944, designed to offset unemployment by funneling veterans returning from WWII into college, worked on the principle that GI's would be attractive to institutions because they had money to pay tuition. In 1947, 49 percent of college enrollments were veterans.<sup>xii</sup>

3) *What types of new, market-oriented structures for higher education systems would encourage institutional accountability, responsiveness and innovation?*

The accountability movement in elementary and secondary education is spreading to higher education. Policy makers, long frustrated with the slow pace of change in higher education as well as with the sense that colleges and universities are aloof, are demanding higher levels of

- Institutions can qualify for bonus funding based on performance in areas such as measurement of learner outcomes, partnerships with elementary and secondary schools, diversity of enrollments by socioeconomic status, race and ethnicity, and service to the community.

In its truest form, the building of a charter university involves redesigning an institution's relationship with the state from the ground up. Such a redesign allows academic and political leaders to work from a clean slate, thereby reducing cumbersome regulations at the outset. This is likely to be easier than efforts to deregulate. At the same time, the partners involved work together to define measures of performance and accountability.

## Conclusion

Higher education now operates in a global, competitive environment, and policymakers are inclined to encourage the competition to address long-standing flaws in the system. This is a time of great opportunity, if competition is used wisely. The danger is that valuable attributes of the system will erode away because competition was let loose in the absence of thoughtful debate and careful planning.

*"Competition can be beneficial, but it requires a good regulatory framework in order to function effectively.*

*"—Norman LaRocque, about New Zealand Higher Education, 2001<sup>xliii</sup>*

It is not only students that have become more mobile. Increasingly, good ideas, including policy concepts, are traded in the international marketplace. While policies cannot be plugged in without adaptation, there is much to be learned from ideas tried or proposed around the world. The need for policy makers and academic leaders to learn from their counterparts elsewhere has never been higher or more necessary. The current trends are raising a host of questions, only a fraction of which is addressed here. Who is responsible for quality when institutions cross borders physically and virtually? How can institutions with special missions but low enrollments be maintained in the face of competition?

Initiatives such as the *Observatory on Borderless Higher Education* have an invaluable role to play as messengers of new trends and ideas and conveners of great minds. There is an urgent need for even more quality research, and even more debate. Efforts to inform academic and political leaders of the trends in higher education, reflect upon the impact of the trends, and encourage proactive discussion and policy development will be essential in moving forward. The higher education community needs to share what it has learned about new competitors, new policies, and new technologies for the good of all of the citizens of the world.

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## Author's Note

Frank Newman is project director and Lara K. Couturier is project manager of the Futures Project: Policy for Higher Education in a Changing World, a higher education think tank based at Brown University in the United States. The Futures Project believes that America's colleges and universities must become more responsive, innovative, accountable, and accessible. To achieve this, lawmakers and higher education leaders will need to carefully and thoughtfully harness the increasing competition taking hold in higher education. The Futures Project's mission is to encourage proactive, strategic decision-making by lawmakers and academic leaders by providing research, analysis and policy solutions. A footnoted version of this article, as well as other project publications, can be found at [www.futuresproject.org](http://www.futuresproject.org).

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Film Institute, RAND, Woods Hole Oceanographic Institution, the Victoria and Albert Museum, Science Museum, and the Natural History Museum.

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Three strategies for success that higher education institutions can adopt to better target prospective students. Higher education is a crowded and intensely competitive industry. The Fashion Institute of Technology was founded in 1944 as a fashion industry trade school in New York City. However, people have a much different perception of FIT 75 years later. The school's brand and messaging were clear to prospective students, parents and high school guidance counselors, as well as to industry partners and the public. "Fashion is our history and legacy, it's in our DNA," Williams says. "The job market is now more interested in the skills you bring than your academic credentials." Since higher education is not a public good, it does not follow that access to college should be universal and free of charge. But that has not stopped advocacy organizations from labeling college a "public good" to make the argument that it should be free. By contrast, a good which carries a positive externality need not be provided by the government at all, let alone be free. Instead, the optimal solution is for the government to subsidize the good, as all levels of the American government already do for higher education. In addition to writing for Forbes, my writing has appeared in the Wall Street Journal, the Washington Post, the Seattle Times, U.S. News and World Report, the Washington Examiner, Fortune, RealClearPolicy, and National Review.