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Background paper

The Public Good, the Public Interest, and Public Higher Education

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Introduction

An important concern in contemporary debates about higher education policy is that of the "public good." The concept of the public good is articulated in different ways. In the first instance some argue that higher education is itself a public good that can only be provided by the state. By this definition the observed decline of state support for public sector higher education in the US is injurious to the public interest. In the second instance some argue that institutions of higher education make distinctive contributions to the public good and that these contributions are being undermined by the growing reliance on competitive markets to distribute higher education. By this definition the public interest requires new regulatory controls on entrepreneurial behavior particularly by for-profit educational institutions. I wish to suggest that these differing uses of the term "public good" tend to obscure rather than illuminate the most important challenges now confronting higher education around the world. I will argue that the public interest will best be served by attention to policies designed to assure the academic quality of all forms of higher education, whether public, private, or for-profit.

The "Public Good" and Public Universities

Let us first examine the contention that higher education is itself a public good. Many will be familiar with the economist's traditional definition of a public good as a good or service which is neither rivalrous in consumption nor excludable in ownership. Such goods – national defense being the classic example -- will either not be provided or provided in insufficient quantities by the private sector and therefore must be provided by the state. Not surprisingly economists applying this definition conclude that higher education institutions and more specifically the services they provide are not public goods (Barr, 2004). Basic and applied research, academic degrees, and consulting are all supplied both by private non-profit and for-profit institutions in our society.

In the UK, the entire university system is now composed of autonomous, property-owning institutions whose independence is guaranteed by Royal Charter or by Parliamentary Statute (Williams, 2004). In this sense, their governance is more similar to non-profit, private universities in the US than to the state-controlled universities of many other countries including the US. The public interest in publicly supported higher education in the UK is not assured by direct government provision or control, but rather by performance contracts between the state and these essentially private universities for respectively teaching and research.

But what of the distinctive third function of the US public university, public service? The American belief that higher education institutions should provide services to the larger community in addition to their research and teaching mission was not viewed as a traditional function of the university in Europe or the UK. But this is changing. The UK has now implemented "third leg" funding in which the autonomous

universities compete for grants subsidizing public service activities such as short training courses and consulting (Williams, 2004). This idea of the state relying on private institutions to provide public service is not as foreign as it sounds. In the US we are proud of our distinctive tradition of the land-grant colleges. As the President of the National Association of State Universities and Land-Grant Colleges puts it:

> America's state universities and land-grant colleges - all of them truly peoples' universities - are a marvelous enterprise that has served our nation superbly. They are fundamental to our democratic system and essential to our aspirations for a better, more just future. These universities are a critical part of public higher education, and they are essential to the well-being of our nation's economy and society. (NASULGC, 1999, "About NASULGC").

However, as you in New York State are well aware, the contribution that land-grant colleges make to our society is not a function of public ownership or state control, but of the types of services they perform. The land-grant college in this state is in fact a private institution, Cornell University, which provides under contract with the state and federal governments the same services as the public land-grant universities in other states. The mission of Cornell's aptly named contract colleges is to foster the economic and social well-being of New York State.

Similarly the goals the federal government seeks to achieve with its subsidy of basic and applied research are not dependent upon the research status or even the existence of state-controlled universities. The federal government offers competitive contracts with public universities, private universities, and for that matter with profit-making institutions to conduct the research and scholarship that is believed to be in the broader public interest. Commenting on the current concern about the declining status of America's public research universities, the respected science policy researcher Irving Feller (2005, n.p.) noted:

> From the perspective of the U.S. national science and technology system, there is an artificial, almost solipsistic character to this attention to positional races. As long as the U.S. national science and technology system flourishes, which implies a vital research university system capable of generating new scientific and technological discoveries and providing solid, broad-based education across historic fields of studies, training in societal important professional fields, and internationally competitive graduate degree programs, and does so in a manner that allows for the full participation of its diverse populations, including in this current era of rapidly rising tuitions, all income classes, the positions of individual universities or clusters of private and public institutions within quality rankings has perhaps as much importance as does the rankings of their football teams in the Bowl Champion Series or of the seedlings of their basketball teams in the NCAA March tournament.

In fact the very concept of a "public" university is becoming increasingly ambiguous. The Darden Graduate School of Business Administration at the public University of Virginia now receives no share of the state allocations to the university and supports itself exclusively via high tuition fees and private funding. Is the University of Virginia's business school private or public? Most major public research universities including my own are actively engaged in as much profit-making activity as they can identify, through the entrepreneurial development or sale of research, through distance education, and through the licensing of the university's good name, activities well documented in Roger Geiger's recent study of public and private research universities, which he appropriately titled *Knowledge and Money: Research Universities and the Paradox of the Marketplace* (2004). The University of North Carolina Chapel Hill for example is often the national leader in profits derived from the licensing of its logo and I suspect our recent NCAA basketball championship was celebrated as much or more by our business office as by our students!

The common description of public and private universities as "non-profit" institutions is therefore clearly a misnomer. A goal of all contemporary universities is to earn a profit, or in fund accounting terms, a surplus of revenues over expenditures. The true distinction is that they do not dispense these profits to owners or shareholders, but reinvest these profits in institutional activities that supposedly serve the public interest, a point to which I shall return. Both public and private universities are therefore better described as "not-for-profit" rather than as "non-profit."[1] As the proportion of public university budgets that comes directly from the state continues to decline and as the proportion that comes from student fees, endowment, private gifts, and clearly commercial activities continues to grow, the concept of the public university changes to the reality of the "publicly-supported university." In the process the distinction between public and private institutions further blurs.

If state provision is becoming a less reliable means of assuring the public interest, than what of state control. Here we see among the most obvious and fundamental changes in state policy. Public research universities in the United States and state-controlled universities in many other countries are aggressively seeking to disconnect themselves from government regulation and control over both academic activities and university management (Dill, 2001). The states of Colorado, Florida, Washington and Virginia are all debating policies that would radically alter the long-established regulatory relationship between the state and research universities. In Europe, a number of countries have already assigned control over personnel and contracts as well as ownership of land and buildings to the universities. As we move down this slippery slope of deregulation (Figure 1) each delegation of responsibility to the university lessens the traditional distinction between the public and private university.[2]

[1] I am indebted to Professor Curtis McLaughlin for this useful distinction.

[2] The most critical sticking point in most countries as well as in the US is whether "public" universities should have the same control over setting and retaining tuition and fees as their private counterparts.

I believe this overall deregulatory trend, which essentially shifts research universities from the status of state agencies to that of public corporations, is inevitable and there is some evidence that it is in the public interest (Dill, 2001). World-wide governments are discovering that in the increasingly competitive market for students, faculty members, and research support the traditional state instruments of top-down control of higher education are no longer efficient for society. While I expect many public research universities will eventually achieve the academic and managerial autonomy now enjoyed by universities in the UK as well as by the University of Michigan in the US, state universities will retain a tie to the state through their traditional systems of governance. Even here, however, the common practice of appointing institutional alumni as members of public sector institutional boards of trustees means that public university boards, like their private counterparts, will inevitably be more concerned with the interests of the institution than the interests of the broader public. In sum, these collective trends suggest that both state ownership and state control of research universities are becoming less meaningful as well as less effective instruments for protecting the public interest in higher education.

The Public Good and Market Competition

The second definition of the public good that I wish to explore is the notion that the public university provides goods and services that contribute to the public good and that these contributions are being threatened by market forces and particularly by the unrestrained activities of profit-making institutions. Here I believe that most if not all of us could agree on a definition of the public good in higher education that clearly reflects the public interest. That is that public subsidies of higher education in all countries are in the public interest because of the human capital that graduates provide to society. I am using human capital in its broadest meaning to include not only the contributions that educated graduates make to the economy, but also the non-monetary benefits they contribute to society such as improved parenting, healthier lifestyles, greater civic participation, and increased social cohesion. From this perspective I would further argue that the public interest is best served by a system of higher education that maximizes in as efficient and equitable a manner as possible the knowledge, skills, and values learned by university graduates.

Applying this definition to the US system reveals a number of problems. First, while there is international agreement that the US possesses the finest research universities in the world there is increasing evidence that the overall higher education system is not the most efficient producer of human capital. A number of countries in Western Europe now graduate a larger proportion of the relevant age group from university and achieve higher private and social rates of return at a lower per student public expenditure than the US (OECD, 2004). Furthermore, there is an increasing concern among US policymakers and the public about the academic quality of colleges and universities. Despite the long-standing tradition of institutional and specialized accreditation, which the academic community believes assures academic standards, most

of the states implemented over the last twenty years assessment policies designed to address public concerns about the quality of undergraduate education. Evidence that these assessment policies have failed to improve undergraduate education (Peterson, Augustine, Einarson, and Vaughan, 1999) has motivated more aggressive state policies such as performance funding of undergraduate education (Burke, 2002). At the federal level, as we speak, the Republican Congress is seriously debating legislation that would, in the words of the higher education community, "federalize" accreditation.[3] These reforms are being considered because of publicly stated beliefs that the rapidly rising costs of higher education in both the public and private sector are not matched by equivalent increases in academic standards.

While the US system of higher education has long been noted for its reliance on market forces in comparison to the systems of other countries (Clark, 1983), there is good empirical evidence that the competition for students, faculty members, research support and financial resources has markedly increased within the United States and internationally over the last decade (Dill, 2003). But rather than this increased competition assuring the public interest in the production of human capital, there is emerging evidence of a market failure in which the increased competition undermines student learning in higher education.

Because of information imperfections in the market for higher education (Dill and Soo, 2004), the growing rivalry among institutions of higher education has become a contest for academic prestige, not a competition for the most effective production of human capital. The high visibility of college and university rankings that rely upon indicators of research performance and student selectivity encourages all four-year institutions to invest in an increasingly costly "arms race" for prestige. In a national study of the US higher education market Brewer, Gates, and Goldman (2002) discovered that both public and private institutions are making extensive investments designed to increase the selectivity of the admissions process by linking tuition discounts with academic merit and student ability. These institutions are also investing in student consumption benefits such as comfortable dormitories, attractive eating facilities, and fiber optic computer networks that will help draw high ability students.[4] The researchers suggest that this attempt to build prestige by "cream skimming" the student market does not lead to an improvement in the quality of educational delivery. A recent study on the relationship between institutional selectivity and the presence of educational practices known to be associated with student learning confirms that they are largely independent (Kuh and Pascarella, 2004). A colleges' selectivity offers no guarantee that it provides a more effective learning environment than a less selective school. The pernicious effect of

[3] For a discussion of regulations affecting accreditation in the amendments proposed in the 2003-2005 reauthorization of the Higher Education Act, see "Government Relations" on the website of the Council for Higher Education Accreditation at: www.chea.org

[4] Note that students may be willing to pay higher tuition and fees to attend universities that provide greater immediate satisfaction in terms of student living conditions and social life. But unless these satisfactions experienced during the process of education contribute to the students' future productivity, their capacity for learning, or other benefits to the society, they add to the cost of higher education and do little to enhance human capital (Cohn and Geske, 1990).

competition to make a college more selective is that it diverts resources as well as administrative and faculty attention away from the collegial efforts within universities necessary to actually improve academic standards.

The Brewer Gates and Goldman study (2002) examined the market behavior of for-profit as well as public and private not-for-profit universities. Ironically the researchers discovered that while traditional institutions of higher education may compromise student learning in an effort to gain academic prestige, profit-making institutions have a greater incentive to compete on educational value added, since they cannot make money by contesting on reputational indicators such as student selectivity and academic research. Therefore, for-profit universities were more likely than their public and private not-for-profit peers to invest resources in activities designed to meet the needs of enrolled students rather than in efforts designed to boost institutional prestige. For example, in designing their academic programs many for-profit institutions invested in research on the local business community, on student demand, and on labor market demand. These institutions also were more likely to commit resources to program improvements, convenient course scheduling options, and services for students.

One indicator of deteriorating academic quality in traditional higher education is grade inflation (Rosovksy and Hartley, 2002). In recent Congressional hearings on the renewal of the Higher Education Act, several speakers argued that grade inflation -- or more accurately grade compression in which few low marks are awarded to students -- provided evidence of declining academic standards. Surveys of student activities identified as valid predictors of student learning provide some support for this argument (Kuh, 1999). The studies indicate that in all types of four-year colleges and universities in the US students of the 1990s reported spending *less* time on learning-related activities such as attending class, writing papers, and studying than did their predecessors, but reported *higher* academic grades

Grade inflation may lower student's' motivation for significant academic effort, thus negating or undermining the supposed learning benefits to be gained from attending a more selective, or more prestigious institution. The more crucial issue, however, may not be the effect of grade inflation on student learning per se, but the distorting influence on faculty and student behavior of variations in grading criteria across the university. Because student evaluations of teaching influence faculty promotion and tenure decisions and undergraduate program enrollments influence departmental budgets, the lack of common standards on grading provides incentives for opportunistic behavior among faculty members. Similarly, the well documented disparity in average grades between the sciences, social sciences, and humanities (Rosovsky and Hartley, 2002) may shape undergraduate choices in ways that are harmful to the public interest. Studies at Williams College and Duke University (Sabot and Wakeman-Linn, 1991; Johnson, 2003) suggest that these grading differentials influence undergraduate science enrollments, thereby contributing to a growing shortage of scientific talent in our society. As the author of the Duke study concluded:

> As a consequence only of differences in grading practices between academic fields, American undergraduates take, on average, about 50%

> fewer elective courses in the natural sciences and mathematics than they would if grading practices across disciplines were more equitable (Johnson, 2003,p. 238).[5]

In sum, there is increasing evidence that current market competition in the US provides incentives for traditional private as well as public institutions of higher education to behave in ways that do not maximize human capital. I would argue that effectively addressing this problem is in the public interest and would make the greatest contribution to the public good.

Conclusion

Over the last three years I have been directing with the support of the Ford Foundation a research program on the relationship between public policy and academic standards. Many nations are concerned that as their systems of higher education rapidly expand and as their universities engage in an international arms race for prestige, the quality of undergraduate education may be compromised. As a result a number of interesting policy experiments are underway outside the US to assure that universities are efficient producers of human capital. Each has advantages and disadvantages, but the most effective policies recognize that university self-regulation remains the best means for assuring academic standards. There are several examples of these new quality assurance approaches underway in the US, most notably the Teacher Education Accreditation Council (TEAC) [http://www.teac.org/], which has adopted and improved upon the Academic Audit approach invented in the UK, and the new program evaluations being developed by the state university systems in Missouri and Tennessee, which build upon the Teaching-Learning-Quality Process Reviews (TLQPR) first implemented in Hong Kong (Massy, 2003). What distinguishes each of these approaches is the recognition that in the new world of market competition in higher education the public interest is best preserved by public policies encouraging all institutions to take the self-regulation of academic standards seriously and to develop collegial processes that effectively promote student learning.[6]

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[5] The differing grading standards between the humanities and sciences was emphasized by a recent Harvard graduate who criticized the lack of academic challenge he experienced as an undergraduate student:

> Those [classes that were so easy] tended to be in history and English, classics and foreign languages, art and philosophy – in other words, in those departments that provided what used to be considered the meat of a liberal arts education. Humanities students generally did the least work, got the highest grades, and cruised academically, letting their studies slide in favor of time-sucking extracurriculars, while their science- and math-minded classmates sometimes had to struggle to reach the B-plus plateau (Douthat, 2005, p. 97).

[6] An earlier national report on academic accountability by Graham, Lyman, and Trow (1995) similarly questioned the adequacy of the "internal accountability" processes for monitoring academic performance at many US universities and called for reform.

Let me conclude that while my overall remarks may be perceived as antagonistic to public higher education, I do not discount that there may be public interests that can only be achieved by direct government provision of higher education. The US military academies represent one such interesting example and there are likely others at the state level as well. I would argue, however, that we need to carefully distinguish the public interest in higher education from the interests of public universities. If we do so I believe several points become clear. First, the public interest is not well served by efforts to achieve a higher education system with a particular proportion of public and private institutions. Nor is the public interest best served by public policies designed to ensure that public and private institutions have similar missions or comparable status. Rather I believe the public interest is best served by policies which assure that all publicly subsidized institutions of higher education -- whether they are public, private not-for profit, or private for-profit -- provide human capital to our society in as efficient and equitable a manner as possible.

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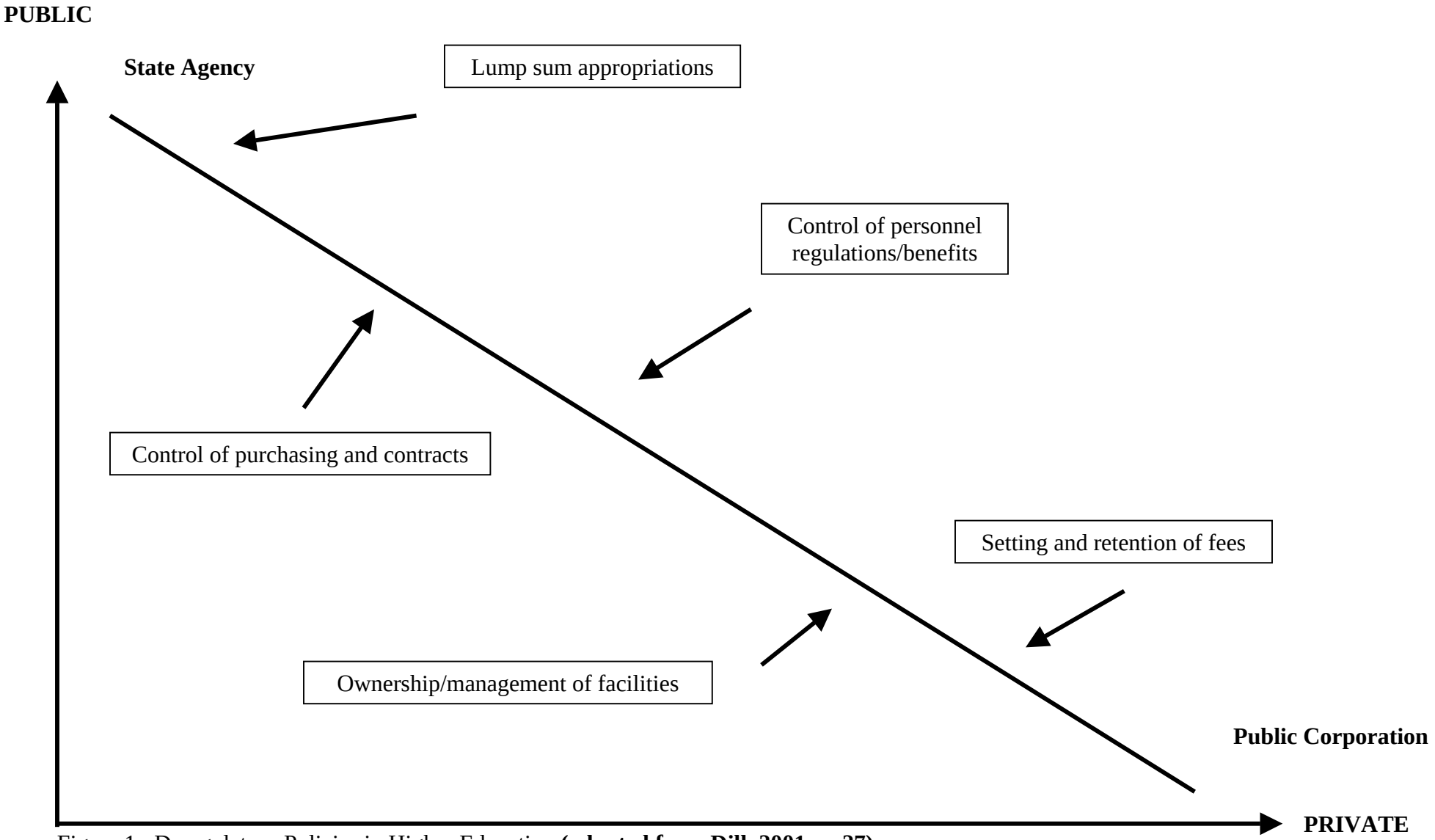

Figure 1: Deregulatory Policies in Higher Education **(adapted from Dill, 2001, p. 27).**