

IMPACT BRIEF

BRIEF # 8 / JUNE 2006 / ILR SCHOOL / WWW.ILR.CORNELL.EDU

The Privatization of Public Higher Education: Can We Afford It?

Policy issue: The privatization of public higher education could undermine quality and hinder accessibility for students from low- and middle-income families, resulting in long-term negative consequences for American society.

Conclusions: Declining government support is forcing public colleges and universities to compensate by raising tuition and relying more heavily on part-time and non-tenure track faculty. Less state support also shrinks the cohort of well-qualified Ph.D. students and thus the quantity and quality of teaching and research; it also limits the range and scope of outreach and other “knowledge transmission” activities. Privatization may be a more viable strategy for the top tier of public universities, which are best positioned to compete with private institutions. The likely detrimental impact on less prestigious four- and two-year colleges is a more serious concern.

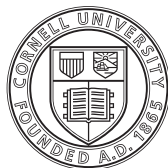
Policy implications: Privatization strategies that lead to tuition increases at public colleges and universities could cause a fall-off in enrollment and graduation rates and worsen the social stratification already present in American higher education. Research has shown that students who attend well-funded institutions (often a proxy for quality) tend to earn higher incomes after graduation. In addition to this private return to education, researchers have also identified a set of social re-

The Impact Brief series highlights the research and project-based work conducted by ILR faculty that is relevant to workplace issues and public policy. Please visit <http://digitalcommons.ilr.cornell.edu/impactbrief/> for full-text pdfs.

turns, including higher incomes for individuals who did not attend college, greater tax revenues, more intergenerational mobility, and lower welfare rolls. State legislatures should devise programs that keep the doors to higher education open to less-affluent students and enable those who take out loans to support their schooling to pursue studies in critical fields (e.g., teaching, nursing, and social work) that do not hold out the promise of high pay. At the very least, more federal and state resources should be allocated to this sector along with more need-based financial aid.

Abstract: Public colleges and universities are in danger of losing their place as engines of social mobility and generators of knowledge. State appropriations to public colleges and universities, as a share of their overall budgets, have been shrinking since the 1980s even as enrollments have climbed. The resulting financial pressures have led to tuition hikes, cutbacks in the number of full-time and tenure-track faculty, reduced support for low- and middle-income students, and fewer subsidies for graduate students. Despite the widely acknowledged social good produced by public higher education, many policymakers hold to the view that the individual beneficiaries should pay more of its cost, especially now that the education-based income gap is widening. Decreased state funding also reflects policymakers’ assumption that forcing public institutions to behave more like private institutions, which have long competed for resources, will eliminate waste and boost efficiency.

The problem is, public higher education lacks the freedom and the resource base enjoyed by its private coun-



Cornell University
ILR School

terpart. Private colleges and universities control their own tuition rates; many boast hefty endowments that throw off ample investment income; and many benefit from a long-standing tradition of alumni giving. The “publics” may rely on similar sources of revenue, augmented by state appropriations, but tuition rates are lower and increases constrained by state legislatures; endowments are smaller or nonexistent; and alumni donations generate far fewer funds. These institutions also carry a heavy public mission that is not shared by private colleges and universities but whose fulfillment is becoming increasingly elusive.

The contrasts between the two systems, and within public higher education itself, are evident in the data. Average per student expenditures by private institutions increased 52% between the 1975/76 and 1995/96 academic years compared to 40% in public colleges and universities; more recent data are unavailable, but the spending gap has undoubtedly widened. Expenditures also vary among the different types of publics: in 2000/01 the top-tier flagships spent \$9,673 per full-time student compared to \$4,903 at comprehensive four-year schools and \$3,797 at two-year colleges. Meanwhile, faculty salaries in the publics have deteriorated relative to the privates, falling to 78% of the 2003/04 average full professor’s pay at private institutions from 91% in 1978/79. This disparity makes recruitment and retention of the best academic talent exceedingly difficult, a challenge compounded by worsening student/faculty ratios at the publics. In fact, research by this author shows that hiring less qualified faculty is negatively associated with student outcomes: a 10% increase in part-time faculty is correlated with a 3% drop in the five-year graduation rate while a 10% increase in full-time, non-tenure-track faculty is correlated with a 4.4% drop in the graduation rate.

The new model of high tuition/low state appropriations is straining and changing the public system. As tuition edges closer to levels on the private side, the publics have been losing some of the best students to the privates and are threatened with overall enrollment declines. A desire to maintain standards of selectivity combined with pressures from middle-income families to offset rising fees have prompted the publics, the top tier in particular, to offer more merit-based financial aid while reducing need-based aid. The result: decreasing accessibility for students from low- and middle-income families. Indeed, this cohort accounted for less than 20% of the student body at the flagship schools in 2000/01 compared to 27% at comprehensive four-year schools. Decreasing state support also cuts into the subsidies awarded Ph.D. students, which discourages the best from studying at the publics and thus diminishes the quality of teaching and research assistants, with negative ramifications for undergraduate education and academic research. And finally, publics that are also land-grants are struggling to sustain their mandatory public service obligations while pushing their outreach/extension units to generate funds through commercial and entrepreneurial activities.

In the long run, the downsides of this evolving predicament are inescapable: a wide socio-economic chasm, lower tax revenues, and a weakened higher education system that undermines society’s ability to produce the new ideas and literate populace that drive its economy. Investing in the publics and facilitating attendance by low- and middle-income students may stave off this unwelcome result.

Source publication: “The Perfect Storm and the Privatization of Public Higher Education.” *Change; The Magazine of Higher Learning*. January/February 2006.

by RONALD G. EHRENBERG

Irving M. Ives Professor (ILR) and Director, Cornell Higher Education Research Institute

