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ABSTRACT

Colleges and universities are privatizing various institutional components and are seeking greater autonomy from state government. In defining privatization, the paper makes the distinction between privatizing and contracting, and notes six areas where a good or service can be owned or managed by the government or by the private sector: ownership of physical property, production, management, financing, allocation, and regulation. Also examined are the underlying forces behind privatization, including a changing political climate, declining public confidence in higher education, declining state government appropriations, and the belief that more efficient allocation of resources will lead to better services at reduced cost. The typology offered for understanding privatization is organized into four major areas: (1) public production with public finance, which involves government production of goods and services financed through taxes; (2) public production with private finance in higher education, user fees such as tuition and student fees are typical examples; (3) private production with government financing, which includes contracting out, deregulation, franchises, subsidies and grants, and vouchers; and (4) private production, which encompasses load-shedding (government stops providing the service) and divestiture (government sells its holdings to the private sector). (Contains 49 references.) (CH)

The Winds of Privatization:

A Typology for Understanding the Phenomenon in Public Higher Education

by

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> The inclination of public institutions to administer a wide range of services is steeped in tradition. But, just as municipalities across the country have found that they can better meet their budgetary and societal obligations if services such as ambulance, fire protection, and hospital are provided by outside suppliers, colleges and universities may also find privatization a way to cut costs without cutting services. (Anderson & Meyerson, 1991, p. 103)

> Many educators and public-policy experts believe that fiscal problems are leading to the "privatizing" of public higher education--they just aren't sure what such privatizing is. (Blumenstyk, 1992, p. A25)

> Today a broad and growing consensus recognizes that privatization, properly implemented, is a viable and legitimate response to a wide range of philosophical and practical concerns . . . . Consequently privatization is likely to exert a powerful influence over the shape of political and economic institutions in the coming years. (Miller & Tufts, 1991, p. 99)

Throughout public higher education, the winds of privatization are blowing. Swirling from the current political climate, declining state appropriations, accountability concerns, and the reexamination of higher education as a public good, colleges and universities are privatizing various institutional components. Privatization is not synonymous with contracting. Although contracting for food service and bookstore operations is common, privatization now is considered a legitimate option for computer services, residence halls, teaching hospitals, and remedial classes as well as entire institutions. In the latter case, colleges may be granted greater or complete autonomy to act as a non-profit organization independent of the state. While privatization may be progressing more slowly in higher education than in other public sectors, the winds are picking up velocity here as well.

Given the current level of discourse in higher education policy arenas, privatization is an emerging topic of great significance. Although postsecondary education has enjoyed a vibrant private sector, public institutions of higher education are increasingly privatizing. The Association of Governing Boards of Universities and Colleges (AGB) (1996) lists privatization as one of the top ten public policy issues for higher education. Across the nation and around the globe, lawmakers and higher education policymakers are exploring privatization as an alternative to government financing and operation of postsecondary education.

With limited research, the privatization of college services is chronicled primarily through anecdotal evidence. However, it is often a misunderstood concept. Privatization is frequently used to cover a wide area of ground. In such, it fails to distinguish between different forms of privatization that have radically different implications and roles for the public and private sectors. Since privatization is well under way, some fear "we are sliding into a new reality instead of planning for it" (Yudof, 1992, p. A48). Therefore, a typology is needed to understand the privatization movement in colleges and universities.

The intensification of forces propelling privatization in higher education holds important implications for colleges and universities. This paper will provide practitioners, state government leaders, policy analysts, and scholars with a framework for comprehending privatization in a higher education context. For a better understanding of the phenomenon, the objectives of this paper are:

1. To briefly examine the underlying forces of privatization;
2. To define privatization;
3. To develop a typology for interpreting the postsecondary privatization movement; and
4. To begin a discussion of the implications of privatization.

The focus of this paper is not to promote privatization or to argue against it. Instead, it seeks to develop a greater understanding of privatization. Although not a thorough or exhaustive effort to comprehend infinite possible variations, it provides a framework of the major types of initiatives. In developing this paper, applicable theoretical and conceptual frameworks in the public administration, political science, and economics literature are surveyed. In particular, I utilize the work of Donahue (1989), Hirsch (1991), Murphy (1996), and Savas (1982, 1987) as a foundation.

Forces Behind Privatization

Increasingly, the external climate of higher education is influenced by the changing political atmosphere, declining public confidence in higher education, and fiscal constraints. In 1994, the Pew Higher Education Roundtable noted, "No institution will emerge unscathed from its confrontation with an external environment that is substantially altered and in many ways more hostile to colleges and universities" ("To Dance with Change," 1994, p. 2A). It is this historical and political context in which higher education finds itself.

The Changing Political Climate

Evolving since the early 1980s, the political climate in the United States has seen a drift to the right. As a backlash to the big government era of the New Deal and the Great Society eras, there is rising discontent with government. With the public sector viewed as inefficient and ineffective, there are "general efforts to downsize government" (AGB, 1996, p. 13) and to reinvent government. Higher education is included as a target of the political discussion:

> Certainly not all, but clearly too many, of those responsible for higher education's funding believe that colleges and universities have become too isolated from the economic pressures that are forcing most other American enterprises to rethink purpose and mission, to reduce scope by scaling back the size of their operations. ("To Dance with Change," 1994, p. 6A)

Therefore, public higher education finds itself in a much more threatening and hostile environment.

While higher education has historically been seen as a public good in which society at large benefited from a better educated citizenry, this is changing. Now many perceive it as a private gain in which the majority of the benefits accrue to the individual recipient. Sontheimer (1994) states:

> First, there are no strong philosophical or economic arguments for the public sector to be the provider of higher education services. The public good argument for higher education is weak at best. While there are productivity gains from the education received at the post-secondary level, there is no evidence that the productivity improvements are not properly compensated via the market (i.e., there are no significant external economies). (p. 146)

Furthermore, state legislators see "that a college education in fact contributes more to individual advancement than to the nation's social fabric" ("To Dance with Change," p. 4A). Although some suggest that public support of higher education is necessary to provide access, Sontheimer notes:

> The affordability or access argument based on distributional considerations (whether argued as another version of a public good case, or simply based on interpersonal, distributional considerations without any reference to externalities or social stability as a public good) also is weak, since private provision of the services with public finance to those individuals meeting subsidization criteria is a feasible option. (p. 146)

Declining Confidence in Higher Education

Accompanying the loss of confidence in government is declining faith in higher education. Yudof (1992) notes:

> Some people would argue that many citizens are dissatisfied with the performance of state universities. Many taxpayers believe that undergraduate education, in particular, has suffered at the hands of administrators and professors more concerned with graduate education and research. And many are increasingly distrustful of what they perceive to be a "sacred cow." (p. A48)

Media images of higher education have contributed to the lessening of confidence in higher education: "Their dominant perspective is one of lumbering obsolescence; to them colleges and universities are dinosaurs trapped in the tar pits of political correctness and inefficient as well as self-serving attitudes and practices" ("To Dance with Change," 1994, p. 5A). From this perspective, change is needed.

Fiscal Stress

Another squall behind the privatization movement is declining appropriations from state governments for higher education. The rising gale of healthcare, K-12 education, and prison systems costs, often protected by court order, leave fewer dollars available for higher education. Therefore, funding postsecondary education has slipped down the ladder of state priorities. Goldstein, Kempner, and Rush (1993) note "the 1990s have been and will continue to be a decade of restraint for higher education" (p. v). Thus, institutions are seeking more cost-effective service delivery that will allow them to do more for less money.

Colleges and universities have reacted in two ways. One new breeze is to seek cost savings through hiring private firms to provide the same service at a lower cost than in-house production. The alternative is to seek new revenues by turning the service over to a private company and then sharing in the profits generated (Mercer, 1995). In many cases, the institution is not capable of managing small businesses, and privatization allows them to focus on their core mission of education (Biddison & Hier, 1990). Even if all services are not privatized, it causes current employees to be more entrepreneurial in their approach to cost cutting and efficiency (Mercer, 1995). Savings may be generated through incentives, flexibility in personnel issues, competition, scale economies, and by shifting capital investments to the contractor (Biddison & Hier, 1995; Ferris, 1991). Also, contracting often limits an institution's financial exposure. In addition, private firms offer the opportunity to improve performance and maintain or improve the quality of service, or at least maintain the current level of service, at a lower cost. In areas where there is rapid technological change or where private firms have expertise in the area, it often makes sense to hire contractors (DeLoughry, 1993).

While internal pressures may drive many privatization initiatives, others are fueled by state legislators and governors who are encouraging public institutions to consider various forms and in degrees of privatization in order to conserve funds. Following criticism of its spending and anticipation of a legislative debate on higher education appropriations, The University of Tennessee prepared a report on how it saves approximately three million dollars per year through outsourcing at its five major campuses (Mansfield, 1997).

Intellectual Foundations

The intellectual foundations of the privatization tempest reside in economic theory. With the forces of competition and the motivation of profit (Murphy, 1996), the market forces of competition lead to efficiency. Savings are generated through a more efficient allocation of resources. Thus, privatization is expected to lead to better services at a reduced cost.

Defining Privatization

Although privatization is widely considered to be synonymous with outsourcing or contract management, contracting is but one form of the concept. Broadly defined, "*privatization is the act of reducing the role of government, or increasing the role of the private sector, in an activity or in the ownership of assets*" (Savas, 1987, p. 3). It is a continuum running from complete government financing and production of public services to total private financing and production. Sherrod (1989) states:

> Operationally, it can be defined as shifting the production of current goods and services, or the ownership of assets into the private sector. Philosophically it can be defined as relying more on the private institutions of society and less on government to satisfy people's needs, where the private institutions of society include the marketplace, the family, and all kinds of groups formed voluntarily by individuals. (p. ix)

In other words, privatization shifts the financing and/or provision of public services to the private sector. In other instances, it may mean a reduction or elimination of government involvement in an activity. In this case, privatization is "a shift of responsibilities from government to the private sector" (Hirsch, 1991, p. 1). The form of privatization is determined by the degree production and finance are blown away from pure government provision.

Increasingly, the issue of public versus private provision is obscured by the growth of public-private partnerships and the growth of private or nonprofit organizations designed to serve public purposes (Johnson, 1992). For example, United Way funds programs such as AGAPE that provide adoption services. Meanwhile, Churches of Christ are actively involved in helping welfare recipients to become employed through job training and child care.

Related Concepts

Hirsch (1991) employs the following concepts to discuss the provision of goods and services: ownership, production, management, financing, allocation, and regulation. This section will discuss these components as they relate to privatization.

Ownership

Ownership of property allows the owner to benefit from the assets and to sell them. Between various forms of privatization, ownership of assets is not a particularly distinguishing characteristic since ownership may be held by the government or private organizations in most methods of privatization. For example, a government contractor may utilize government-owned facilities or may use their own (Hirsch, 1991). However, the sale of government assets is a form of privatization.

Production

The issue of production concerns who should actually produce a given good or deliver a particular service. Savas (1989) draws a clear line of demarcation between the production and the provision of a service by a government agency: "The former utilizes government employees to perform the work. The latter involves a government decision to pay for a service to have a private firm supply it, such as hiring a contractor to repair streets or collect refuse, or issuing food stamps that people can spend in a private supermarket" (pp. ix-x). In the privatization squawk, the question is whether a government agency or a nongovernmental group should hold the responsibility (Donahue, 1989). The producer may be a nonprofit organization, a volunteer citizens group, a private business, or an individual person (Savas, 1987). When government privatizes the production or provision of a good or service, it usually remains the arranger who "is the agent who assigns the producer to the consumer, or vice versa, or selects the producer who will serve the consumer" (Savas, 1982, p. 57).

Management

According to Hirsch (1991), "management involves guiding the enterprise to efficiently achieve its objective" (p. 23). While management is closely related to the production and provision process, there are instances where the two are distinguishable. For example, with franchises, the management function might be contracted out while the actual production remains a government function. An example is metropolitan bus agencies that are municipally owned but managed by private firms (Roth in Hirsch).

Financing

Financing involves answering the question of who should pay for a good or service. As a government service, there is collective payment in which revenues generated from taxation are utilized to pay for a good or service. With privatization, the cost of a good or service may be shifted to the private sector. That is individual payment (Donahue, 1989). People who use the service are expected to pay for it.

Allocation

Allocation or provision is the process of deciding whether to offer a particular good or service. If answered yes, it entails "who should receive it, how much of it, and at what price" (Hirsch, 1991, p. 25).

Regulation

Regulation is "affirmative directive steps that are designed to promote the general welfare" (Hirsch, 1991, p. 26). Frequently, governments seek to control price and quality of goods and services through the creation of regulations. Thus, government is able to influence allocation although it is not involved in the production process. Hirsch further notes that "it is obvious that the less government is involved in the total process of supplying the good or service, the greater the need for government to regulate the outcome, should government control of allocation be deemed desirable" (p. 26).

Understanding Privatization: A Typology

Privatization has been called "an umbrella word" (Kearney, 1997, p. 1) because of the scope of forms it embraces. Privatization airs in a variety of types depending upon the degree of government or private involvement in the provision and financing of public services. Scholars have utilized a variety of classification systems for privatization activities. These include Johnson's (1992) "five variants" (p. 220), Murphy's (1996) ten forms, Hirsch's "two major forms" (1991, p. 22) of permanent and temporary privatization, and Gormley's (1987) four.

A variety of institutional structures and arrangements can be utilized in the privatization of government functions. This paper develops a typology of eight different types of privatization particularly relevant to public higher education and provides examples of each. These forms are policy alternatives to pure government finance and production of public services. Because of variations in the role of government and the private sector played in financing and producing services, there are a variety of privatization forms.

In this typology, forms of privatization are classified according to the dimensions of production and finance. (See Figure 1.) Although issues of ownership, management, allocation, and regulation are briefly discussed, production and finance are of primary concern since they are the uniquely distinguishing characteristics of privatization. The production dimension involves whether a good or service will be delivered by the public sector or the private sector. Likewise, the finance dimension involves whether the goods or services will be paid for by the government through revenues generated by taxation or whether it will be paid for by individual users. Many of these privatization initiatives are hybrids in the sense that they involve partnerships between the government and the private sector. While some government functions are shifted to the private sector, the government continues to play a central role.

The upper left of the matrix is the traditional domain of government activity. In this area,

FIGURE 1.
Matrix of Privatization Mechanisms

		Finance	
		Public Sector	**Private Sector**
Production	**Public Sector**	•Government Service	•Diversified Revenue Sources/User Fees
	Private Sector	•Contracting •Deregulation •Franchises •Grants and Subsidies •Vouchers	•Divesture •Load-shedding

Adapted from Donahue, 1989; Murphy, 1996.

government produces goods and services with government employees and finances the activity through collective payment. In contrast, the lower right quadrant indicates the private sector economy. In this dimension, "the government role is limited to enforcing contracts and otherwise regulating, monitoring, and certifying private exchange" (Donahue, 1989, p. 7). The upper right sector of the matrix involves public sector production of goods and services but with individual payment from the private sector. While Donahue (1989) notes that this "may at first seem to be an odd and unimportant category . . . a little thought will reveal many instances in which the output of governmental organizations is paid for in individual transactions" (pp. 7-8). The United States Postal Service is a notable example. Postal employees are employed by the federal government but the postal service is a self-supporting organization in which all revenue is generated through payment for services (Donahue, 1989). The lower left of the matrix features public sector (collective) finance of goods and services but with financing from the private sector.

Although the matrix tends to oversimplify the rather blurry mixture of public and private sector activity, it helps to begin to understand the variations in privatization mechanisms. Eight forms that are directly applicable to public higher education are examined. Obviously, these forms are primary types that could have an infinite variety of alternatives in practice (Donahue, 1989). In this typology, each form of privatization is described.

Public Production with Public Finance

This first category is not a form of privatization but the pure opposite of total privatization. Government service involves government production of goods and services with government finance through collective taxation. The government arranges for the service and produces it with government employees (Savas, 1982). There are abundant examples of government service such as police protection that is normally paid for through collective taxation and provided by government employees.

Public Production with Private Finance

Diversification of Revenue Sources/User Fees

When government units impose user fees or seek other alternative forms of revenue in contrast to pure public finance, the finance of a good or service is shifted towards the private sector. In particular, user fees are charges levied upon users "to make the true cost of government services more evident and thereby stimulate interest in alternative arrangements" (Savas, 1987, p. 233). In some instances, they may be implemented to adjust demand for a particular good or service. Because users are charged based upon how much they utilize service, the financial cost is shifted to those who use or benefit from it (Hatry, 1991). As a privatization strategy, diversification of revenue sources including user fees shift financing to the private sector while maintaining ownership, production, management, and allocation in the public domain.

With lower levels of state support, institutions of public higher education must generate their own financial support by turning to tuition increases, increased fundraising, and for-profit activities. The double-digit tuition hikes of the past decade have shifted more of the cost to the consumer, the student. Since it shifts a greater burden of finance to the private sector, others cite declining or stagnant financial aid in the rustle of rising tuition as privatization (Blumenstyk, 1992).

In higher education, user fees are common as most institutions charge tuition, maintenance fees, and student fees. Increased privatization occurs when institutions hike the amount charged. Today, students pay a larger portion of their college costs than they did 10 years ago (El-Khawas & Knopp, 1996). In some states, there has been a move to charge full price for professional programs like medical and law schools. While they are high cost programs, large benefits accrue to the graduates.

El-Khawas and Knopp (1996) report that approximately two-thirds of public institutions of higher education receive less state funds than they did a decade ago. Instead they are more dependent on other private sources. Over one-half of public colleges and universities now have a more diversified revenue base. The Florida Board of Regents has called upon its state universities "to run themselves like businesses and to raise money on their own rather than rely on state appropriations" (Wertz & Jordan, 1996). The changing nature of revenue sources is reflected in public universities calling their institutions "state-aided" or "state-assisted" (Blumenstyk, 1992, p. A25).

In many cases, institutions are diversifying their revenue bases by pursuing for-profit enterprises. For example, some universities operate travel tour programs that generate funds as well as providing an mechanism for improving alumni relations. Others are licensing their name, logo, and even mailing lists to credit card companies for use in affinity card programs. Credit card users, whether they be alumni or other university supporters, then contribute to the university by making purchases (Roady, 1997). Meanwhile, to maximize inventions developed on campus and to support other innovations, universities are creating venture capital investment funds to help take these ideas to the marketplace with an eye toward generating profits for the university (Blumenstyk, 1996).

Private Production with Government Finance

Contracting

The most common wind of privatization in the United States's public sector is contracting or outsourcing. Typically, this is what people mean when they speak of privatization (Savas, 1985). Although the public sector continues to finance the service, it contracts with a private firm or a nonprofit organization to produce it (Pack, 1991). Thus, the contracting vendor agrees to provide a given good or service at a negotiated price. Either entire services or portions of services may be outsourced. Contracting shifts production and sometimes management and ownership to the private sector. The government continues to finance and make allocation decisions.

All levels of government contract for tangible goods such as equipment, materials, and buildings and for intangible services such as construction, manufacturing, vehicle maintenance, and laundry services (Savas, 1982). Governments may contract for temporary employees, space, or equipment (Hatry, 1989). For the provision of goods historically provided by the private sector, it frequently makes sense to allow the private sector to produce them for the government. When governments decide to outsource, the government may continue to own facilities or equipment or they may be supplied by the private firm.

In many cases, institutions ask why they perform a service themselves. They question "why campus services are being provided by their institutions. All campus services are now vulnerable to this examination and request for justification" (Wertz & Jordan, 1996, p.2). The first areas to be examined for contracting are the auxiliary or support services that are peripheral to the academic mission. Traditionally, colleges and universities outsource food services. However, contracting is now considered an option for other support services including housekeeping, the construction of residence halls, the provision of computer services, career services, and counseling centers (Philips, Halstead, & Carpenter, 1996). To conduct fundraising phonathons, institutions may contract with telemarketing firms (Joyce, 1994). Peterson's (1995) contains a listing of approximately 2000 vendors providing in excess of 100 services.

Universities typically outsource for tangible services where "it is easy to obtain information about quantity, quality, and cost, and consequently the transaction costs incurred in selecting external production are not large" (Ferris, 1991, p. 19). Contractors may agree to provide new equipment, renovations, or technological innovations.

A 1996 survey by *American School & University* found that colleges and universities are increasingly turning to outsourcing with over one-half expecting to contract for more services in the coming years. While only 5.9 percent produce all services in-house, 62.4 percent of colleges contract for four or fewer while 31.7 percent outsource five or more services. The most popular outsourced services are food (74.3%), vending (65.3%), bookstore operations (33.7%), custodial work in academic facilities (30.7%), and laundries (18.8%) (Agron, 1996).

Among the nation's most aggressive contractors is George Mason University in Fairfax, Virginia. Thus far, it has contracts for 50 campus services and operations, including the university arena, totaling more than $30 million. To manage its contracts and to pursue the outsourcing of additional operations, it created the Patriot Service Corporation (Mercer, 1995). Meanwhile, The University of Tennessee at Knoxville (UTK) contracts for the installation of venetian blinds, carpet, ceilings, fences, and elevator maintenance. Through the outsourcing of all custodial services, UTK saves an estimated $565,000 per year (Mansfield, 1997).

When universities lack capital funds needed for refurbishing or building new residence halls, contracting provides a popular alternative. Institutions may lease land to a private firm to construct an apartment complex with the building and land reverting to the institution after a set period of time. In contrast, the contractor may build on the university property with the institution maintaining control of the land and building while paying a fee for services rendered. Thus, the university gains the developer's expertise and is freed from direct oversight (Biddison & Hier, 1995).

Outsourcing may even reach into the classroom. In 1993 when Governor Pete Wilson proposed to privatize one of the University of California's law schools, state officials indicated that one possibility was to contract with a private firm to manage its operations ("Cal. Governor Hopes," 1993). Prior to the establishment of a public dental school in Florida, the state contracted with dental schools in neighboring states to accept its students (Ferris, 1991). Recently, there has been discussion of outsourcing of remedial education.

Deregulation

Deregulation provides regulatory relief or increased autonomy to organizations. For private institutions, this means "a reduction or elimination of government interference" (Hirsch, 1991, p. 1). For government agencies, deregulation provides the freedom to act more like a private business through increased flexibility. For example, deregulation breezes have occurred in the airline and telecommunications industry. While reducing rules, deregulation for public entities lessens the public sector's control of ownership, production, and management through the creation of public corporations or quasi-private entities.

Institutions of higher education are deregulated when government repeals regulations governing them or grants them complete autonomy. State government control of funds distribution, appointment powers to governing boards, approval of degree programs, academic standards, and of tuition are perceived to hamper the effectiveness of higher education. Universities must operate under state rules, regulations, and laws concerning procurement, accounting, contracting, and personnel. Auld (1997) notes,

> such control and management has led to the politicalization of higher education, shackled creativity, forced colleges to operate with rules that result in unwise economic and financial decisions, and erode[d] the pursuit of the fundamental goals of higher education and what the role of government ought to be in the affairs of the academy . . . . (p. 14)

Through deregulation, the relationship between public higher education and the state is dramatically altered as most regulations are dropped. The institution obtains the freedom to establish its own policies, tuition, and academic programs (Auld, 1997). A model can be found in public elementary and secondary educations' own deregulation movement where state rules and regulations are traded for increased accountability (See Gilmer, 1997). Thus, the focus moves from the process of education to the outcomes.

Universities in California, Florida, Illinois, Maryland, Michigan, Minnesota, New Jersey, New York, North Carolina, Oregon, and Virginia have sought or are seeking greater independence from state authorities (Blumenstyk, 1992; Breneman, 1997; Marcus, Pratt, & Stevens, 1997). In 1993, Florida Governor Lawton Chiles asked the state's higher education leaders to formulate a plan to privatize a large portion of the public universities. Following this suggestion, university heads considered a plan to privatize the entire system. In effect, this would have created a public corporation not unlike the Tennessee Valley Authority or the Corporation for Public Broadcasting. Under this proposal, the schools would remain state institutions operating within the context of state laws. However, in practice, they would function like the state's private colleges with increased autonomy. The proposed flexibility would enable the system to set its own tuition and to have control over its own budget. University employees would work for the corporation and not the state (Lively, 1993). The issue has continued to be pushed by the state's universities as they seek control of major decisions and the flexibility to set tuition at a market rate (Schmidt, 1996b).

In today's competitive environment, universities often need more flexibility to manage their financial resources and make quick decisions. For example, the University of Tennessee Medical Center in Knoxville needed the ability to borrow money, something not allowed under state law, in order to be able to purchase medical practices to become feeders to the hospital. Thus, university officials lobbied the state's General Assembly to spin it off as an essentially independent public entity. Oregon granted autonomy to the Oregon Health and Sciences University while withholding complete independence from the other institutions. Arguments included it had taken nine years for the state to request bids to modernize its 1940s era maternity ward. In the meantime, their own doctors sent patients to competitors (Lively, 1995).

St. Mary's College in Maryland, a public institution, was granted freedom from most state controls in exchange for a cap on state tax appropriations. Obtaining "quasi-privatisation" (Berdahl, 1996, p. 1), the college agreed to a set appropriation (adjusted upward each year by the rate of inflation) in exchange for greater procedural autonomy. Thus, it was freed from state rules and regulations concerning purchasing, capital projects, and human resource issues. A public honors college, the institution has doubled its tuition to $5,000 (Berdahl).

In addition, deregulation has the potential of reducing the regulatory barriers to entry into the postsecondary market. As a result, dramatic expansion of for-profit institutions like those of DeVry, ITT Technical, and Apollo Group could take placc. These institutions, such as Apollo's University of Phoenix, could fill gaps in the higher education delivery system.

Franchises

In privatization via franchising, the government grants "privileges to a private firm to supply a particular service, usually with price regulation by a government agency" (Savas, 1987, p. 75). Frequently, it is within a certain geographical area. This arrangement differs from contracting because consumers pay the producer for services rather than the government. As with cable television, franchises can be exclusive. That is, the right of monopoly is granted to a private firm to be the sole provider a service. Frequently, the government retains the right to regulate the price of the service. Examples include telephone service, electricity, natural gas, water, and cable television. In contrast, multiple franchises may be awarded on a nonexclusive basis (Savas, 1982). As a privatization strategy, government maintains control of allocation decisions while ownership, production, management, and financing are in the private sphere.

Universities may grant exclusivity arrangements to vendors allowing them to be the sole representative of a particular good on the campus (Roady, 1997). For example, Coca-Cola could be granted the exclusive rights to sell its soft drinks on campus. In turn, the university would be compensated for this privilege. Private firms such as Barnes and Noble and Follette are frequently granted franchises for campus bookstores and cable television. While the franchisee collects from the individual user, it pays the university for the right of the franchise. There appears to be substantial room for expanded franchising in higher education.

Subsidies and Grants

Another form of government financing with private provision is subsidies or grants. In contrast to vouchers, they are given "to the producer and restrict the consumer's choice to the subsidized producers only" (Savas, 1987, p. 78). Financial or in-kind contributions may include grants, low-cost loans, tax exemptions or incentives, cash payments, or guaranteed loans (Savas, 1987). Governments may also provide grants to a private organization so they will offer a service in lieu of the government (Hatry, 1989). For those who are eligible, subsides reduce the cost of participation and allow them to consume more of the product or service than they otherwise would be able to do (Savas, 1982). By subsidizing private entities, government maintains control of allocation while ownership, production, and management are shifted to the private sector. Examples of subsidies include milk producers and low-cost housing.

In public higher education, institutions generally receive a substantial portion of their funding from state appropriations. Thus, students only pay a percentage of the actual cost of their education. Government support for private higher education shifts operation to the private sector. In order to meet the demand for higher education in particular regions of a state or in certain academic areas, states may subsidize private institutions to offer lower-cost programs instead of the state producing the service. For example, the state of Illinois pays Bradley University to offer state subsidized courses to students in Peoria (Blumenstyk, 1992). In states with gusting demand for higher education but constrained public institutions, privatization through subsides and grants may make sense. They could choose to subsidize private institutions to expand access to higher education.

Vouchers

Like subsidies and grants, vouchers also encourage increased consumption of particular services or goods through the lowered cost of participation by selected groups of consumers. In voucher systems, "certain consumers are authorized to purchase earmarked goods or services from the private market. The government specifies who is eligible to provide them" (Gormley, 1991, p. 4). In voucher systems, consumers receive certificates that are worth a given amount of money when applied towards the purchase of designated services or goods. In turn, the provider is reimbursed by the government for the value of the certificate (Johnson, 1992). Unlike grants and subsidies, vouchers are given to the consumer who is able to choose among various providers competing in the marketplace depending upon which one best meets their needs (Savas, 1982). Frequently, the government may authorize what private vendors are eligible to participate in the voucher program. Thus, the production of the good or service occurs in the private sector although there is public financing. Food stamps and Medicaid or Medicare enrollment cards are examples of voucher systems (Savas, 1987).

In higher education, the best known example of a voucher system is the GI Bill of Rights enacted after World War II to encourage soldiers returning from the war to enroll in colleges and universities. In effect, the vouchers provided veterans with tuition although they were free to choose the college of their choice. The choice was limited to accredited institutions to prohibit fraudulent schools from receiving the funds. Savas (1982) asks us to

> note the profound difference between this approach and a state university. The latter is a government institution where public funds are given to professors and administrators to dispense education services to eligible consumers. On the other hand, under the GI Bill tuition money was given to the student to spend in the college of his choice. (p. 69)

Policymakers and legislators have proposed voucher programs designed to redirect at least a portion of their state spending for public higher education into vouchers provided to eligible students. In turn, the vouchers could be used to pay tuition and other fees at any of a state's public or private colleges and universities. Like other privatization initiatives, proponents view vouchers as a means to force public institutions to compete for dollars in the hope of improving efficiency and quality (Lopez, 1996).

Private Production with Private Finance

All areas of ownership, production, management, financing, and allocation are transferred to the private sectors in this final quadrant. The two forms are load-shedding and divesture.

Load-Shedding

Called a pure form of privatization (Johnson, 1992), load-shedding results when government decides to stop providing a particular service (Murphy, 1996). Decisions to produce and finance the service, either negatively or affirmatively, are left to the private sector. Alternatively, the function can be turned over to a specific private organization. Compared to other privatization strategies, load-shedding has been rare. It has generally been used when reliable private organizations could step in to provide the function (Johnson, 1992). However, this is not necessarily the case. The market may be allowed to determine the fate of the service. Examples of load-shedding include reductions in welfare payments and the elimination of city solid-waste collection (Fixler, 1991).

In higher education, load-shedding occurs when a post-secondary institution eliminates degree programs or advanced courses. Then, market forces determine whether there is sufficient demand for the program to be offered by the private sector. High cost, low volume degree programs are perhaps the most likely to be shed. With declining state appropriations, institutions may decide to drop such programs if demand is inadequate. For example, because of cost, the University of Minnesota closed its Wascea campus which was predominantly agricultural in focus (Blumenstyk, 1992). State budget cuts forced the State University of New York (SUNY) of Binghamton to eliminate undergraduate programs in engineering technology and industrial technology (Blumenstyk, 1992). Another example comes from California where in 1993 California Governor Pete Wilson proposed to privatize one of the University of California's law schools. One possible means suggested by state officials was to remove all state support for the school ("Cal. Governor Hopes," 1993). Theoretically this allows the market to determine whether there is sufficient demand for these programs to be offered by another organization.

Divesture

Divesture, also called asset sales, occurs when the public sector sells holdings to the private sector (Savas, 1987). In liquidating, these collective holdings are removed from the public sector. This form of privatization is common in foreign countries that have a history of state-owned enterprises. As Prime Minister, Margaret Thatcher led the United Kingdom to privatize many state-owned businesses through divesture. Alternatively, the government may encourage the private sector to assume responsibility for an activity through a start-up grant (Hatry, 1989).

In higher education, divesture is not a major form of privatization. However, examples of privatization via asset sales include selling teaching hospitals and unused buildings. The possibility is significant in this area although perhaps not politically feasible. States could privatize through the sale of academic programs, campuses, or institutions.

Discussion

Through these various privatization initiatives, a number of possible benefits are expected. These include the ability of an institution to streamline and to focus on its core mission. Institutions also expect to contain costs while stabilizing or increasing revenues. At the same time, an increase in quality is expected as companies or institutions face market conditions. However, there are many currents for policymakers to consider in pursuing privatization. Several of these fall into the categories of financial, human resource, mission and culture, management control, service quality, and legal and ethical (Goldstein, Kempner, & Rush, 1993). Central to the discussion is the question: How does privatization fit into the mission and philosophy of the institution or in the state's role in higher education (Eddy, Spaulding, & Murphy, 1996)?

There are many concerns regarding privatization. In shifting the financial burden to the private sector, there are questions of control and emphasis. In areas like contracting and franchising, there must be a sufficient number of private sector firms in order to provide competition. Other sources of revenue often have demands and priorities attached. Frequently, donors have their own funding priorities–gifts come with their own individual price tags. Contributors earmark their donations for enhancement purposes rather than the basic needs of a college or university. Instead of contributing funds to pay the utility bills, donors prefer to establish faculty endowments or to add to a university's art collection (Blumenstyk, 1992).

Decreasing public higher education reliance on state appropriations and increased usage of private firms may affect an institution's identity and historic role. In a commercialized environment, critics question whether private firms will consider the best interest of the institution. For example, there are issues of accountability, financial dependence, and quality control (Wertz, 1997). Lower state appropriations will bring into question whether it is still a public institution. Thus, some say we are entering the era of the "privately financed public university" (Duderstadt in Breneman, 1997, p. B4). In addition, the emergence of contract employees on the campus may alter the sense of community. However, others contend that contract employees are indistinguishable from university employees (Mercer, 1995). Nevertheless, how does the profit motive juxtapose with higher education?

In shifting costs to the private sector, will access and equity be affected? Privatization critics contend that privatization inevitability means higher tuition which will likely erode the diversity of student bodies (Blumenstyk, 1992). Proposed deregulation of Florida's public universities could double the tuition (Schmidt, 1996b). In some cases, a high-tuition, high-aid policy may address these issues. States may be more willing to provide assistance to students most in need, while those who can afford it will pay their own way. Policymakers should also consider the full range of implications for students, some of which may not yet be identified.

Particularly in the case of alternative revenue sources, privatization may contribute to the disparity in resources, both within and between colleges and universities. The natural sciences and professional schools are more able to secure external funding. In addition, they have the potential to charge more in tuition since the rate of return for students is greater. Meanwhile, the liberal arts sector and libraries may suffer (Yudof, 1992). Some institutions, like state flagships and public ivies such as St. Mary's that have an unique market niche, are best suited for privatization.

While allowing greater flexibility, privatization may have human resource consequences. In some cases, it may cost jobs, or those jobs may be shifted from the public to the private sector. Indeed, the primary reason institutions do not privatize is due to the effects it will have on their employees (Agron, 1996). By becoming an employee of a contractor, employees' wages and benefits may decrease. While some may be disappointed with inadequate service by contractors, others may be pleased with the level of expertise and feel that it does not make a difference if they are employees of the contractor or of the public. Others feel that employees of contractors may have less loyalty to the institution than if they were employed directly by the university (Wertz, 1997).

The University of North Carolina's plan to outsource housekeeping services led to charges of racism since the housekeeping staff is predominantly black in contrast to other university employees. Consultants expected the contractors to pay them less and to provide fewer benefits (Schmidt, 1996a). The University of Minnesota withdrew a proposal to privatize its computer service through the creation of a publicly owned corporation. Employees being shifted to this new organization feared their benefits, accrued annual and sick leave, seniority, and civil service protection would be diminished (Wilson, 1991).

In the case of outsourced production, contracts for services, and franchises, will the expected cost savings be realized or will increased profits result? In addition, policymakers will have to consider the level of service that is provided. In terms of vouchers, it is not clear that consumers make decisions based upon quality alone and institutions might compete based upon meeting the expectations of a certain level of quality (Lopez, 1996).

Conclusion

As higher education confronts the current political climate, declining state appropriations, and the reexamination of higher education as a public good, institutions are privatizing various components and seeking greater autonomy from state government. Although the most common form of privatization is outsourcing, there are a number of options to shift the production and financing of higher education to the private sector. These include load-shedding, divesture, alternative revenue sources, contracting, franchises, vouchers, subsidies, and deregulation. This framework provides a typology for comprehending the privatization movement blowing through higher education.

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