The role of the state in the provision of higher education in the United States

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Introduction

Over the past decade a considerable amount of research has been devoted to the concept of a new “market” for higher education and the increasing demand for postsecondary institutions in various sectors to re-position themselves for a new competitive environment (Zemsky and Massy, 1990; Slaughter, 1990, 1993; Dill and Sporn, 1995; Slaughter and Leslie, 1997; Marginson, 1997; Gumport and Pusser, 1997; Marchese et al, 1998; Cunningham et al, 1998; Winston, 1999). Much of this research has focused on responses by public nonprofit universities to the perception of revenue constraints generated by declining block grant contributions and competition from other state social welfare functions. Research on public and private nonprofit institutions has addressed rising costs, new demands from internal and external constituencies, restructuring, emerging forms of partnership, and the increasing “commercialisation” of higher education (Powell, 1998; Noble, 1998; Aronowitz, 2000).

More recently attention has turned to the competition from for-profit providers of higher education products and services in general (Marchese et al, 1998; Ortmann, 2000) and to the rise of for-profit degree-granting postsecondary institutions in particular (Breneman, Pusser and Turner, 2000). This latter phenomenon has also ignited an examination of what might generally be termed a “new entrepreneurialism” in higher education management, focused largely on the efforts of institutions to find new sources of capital and revenue (Clark, 1998; Goldstein, 1999).

Despite this growing body of literature, little attention has been paid to the meaning of entrepreneurial revenue seeking for the mission and institutional form of higher education institutions. Research on public and private nonprofit institutions has addressed rising costs, new demands from internal and external constituencies, restructuring, emerging forms of partnership, and the increasing “commercialisation” of higher education (Powell, 1998; Noble, 1998; Aronowitz, 2000).

This research turns attention to the changing status of postsecondary institutions, particularly research universities, and the emergence of a hybrid form of institution that is essentially neither nonprofit nor for-profit. This hybrid institution, while preserving nonprofit status for tax and donative purposes, exhibits many of the behaviours and income generating strategies associated with for-profit institutions. As one prominent example of this trend, a number of nonprofit higher education institutions, including New York University (NYU), Cornell and the University of Maryland’s University College, have begun the process of creating for-profit subsidiaries for the purpose of generating capital to increase competitiveness (Goldstein, 1999a).

This paper presents three related strands of research. First, it looks at the historical incorporation of degree-granting higher education institutions as nonprofit institutions, and the role of the State in the creation and direct provision of nonprofit higher education in the United States. Second, it examines existing research on nonprofit and for-profit organisations (Hansmann, 1999; Weisbrod, 1998) in order to contribute to a theoretical framework for understanding the benefits and challenges of nonprofit and for-profit organisational forms in higher education. Finally, it presents initial findings on the growth of “commercial” or “for-profit” behaviour in research universities, and the implications of that growth. What emerges for higher education in the United States is a new paradigm, marked by shifts in ideology, discourse and regulation that have moved the system away from a commitment to State provision and subsidy of nonprofit higher education, to a model of reduced State provision and subsidy for nonprofit higher education and increasing State subsidy of for-profit higher education. As a result, nonprofit institutions are increasingly engaging in “non-preferred” behaviours (Weisbrod, 1998) and find fewer incentives to provide the social and collective benefits traditionally sought through direct State provision.

Methods

Data collection for this research was based on two strands of inquiry. First, national level and institutional data were gathered to assess the change over time in various sources of institutional revenue in higher education, and the growth of auxiliary enterprises and other “commercial” activities by public and private nonprofit research universities. Data were also collected on the change over time in...
the number of degree-granting for-profit institutions, and the number of degrees awarded by those institutions. This nascent statistical portrait of one aspect of the “commercialisation” of degree-granting higher education was supplemented by twenty semi-structured interviews with institutional leaders in nonprofit and for-profit degree-granting institutions throughout the United States, education industry analysts, and institutional managers involved in creating for-profit subsidiaries of existing nonprofit institutions.

The role of the State

For over two hundred years there have been State funded or State regulated degree-granting higher education institutions in the United States, as well as State owned institutions. While the State in American higher education has served as provider, subsidiser, and regulator, it is the provider role that has been most important. At present over 75 per cent of students in American postsecondary education are enrolled in State owned (public) colleges and universities (Goldin and Katz, 1998). Nor is the current dominance of State provision historically anomalous, or accidental. Tracing an historical line that includes such watershed events in American higher education as the Morrill Act of 1862, the rapid expansion in the number and capacity of community colleges during the 20th century, the growth in postsecondary enrolments as a result of the GI Bill, the Cold War elaboration of nonprofit research universities and the increasing provision of financial aid, all point to the central influence of State efforts in the higher education arena (Veysey, 1965; Geiger, 1986; Hansmann, 1999).

The State and higher education in the United States

Wirt and Kirst noted a quarter century ago that scholars of American education have been “temporarily separated brethren” (1972, p. 1). Two decades later Rhoades suggested that little had changed and that the State in education research remained “distinct from, and in contraposition to, the academy” (1992, p. 85). Research on American higher education has been fundamentally based in pluralist and structuralist paradigms that see the university as distinct and relatively autonomous from the State (Rhoades, 1992).

Perhaps the foremost exception in the United States to the general treatment of the State in higher education research is the work of Sheila Slaughter, individually (1988; 1990; 1993) and in collaboration (Rhoades and Slaughter, 1997; Slaughter and Leslie, 1998).

Slaughter has conceptualised the expansion of higher education in the United States as the result of, and the catalyst for, the expansion of the American State in the aftermath of WW II. The growth of State sector employment increased demand for the professional training and credentialing provided in American colleges and universities. In turn, the disproportionate allocation of State funds for higher education to professional and technical training contributed to reinforcing historical inequities in the labour market (Slaughter, 1988).

Despite the prominent historical and contemporary role of the State in the social welfare system of the United States generally and in higher education specifically, a significant body of research has recently raised the question of whether the State should be a direct provider of higher education at all (Hansmann, 1999; Weisbrod, 1998; Twigg, 1998). This literature is complemented by a strand of research that raises similar questions about the role of the State in the regulation and finance of private nonprofit institutions, the institutional form that ranks second in degree provision in the United States (Weisbrod, 1998; Winston, 1999).

Emerging research on the role of the State in higher education is nested in a shifting ideological contest over the appropriate role and institutional form of higher education itself (Aronowitz, 2000). Over the past two decades researchers have suggested that the existing higher education system in the United States is too costly, inefficient, unresponsive, and the captive of academic special interests (Zemsky and Massy, 1990; Cole, 1994; Massy, 1996; Kors and Silverglate, 1998). In many respects the emerging discourse in higher education research reflects the critiques levelled at the elementary-secondary system in research by Chubb and Moe (1990), Peterson (1995), Hanushek (1986) and others.

More recently, a number of researchers have suggested that political, economic, and technological shifts in the United States lead inexorably to a new competitive “market” for higher education that will challenge the seemingly entrenched dominance of State owned and subsidised nonprofit universities (Raphael and Tobias, 1997; Marchese et al, 1998; Block, 1999; Ottrmann, 2000).

Perhaps the most widely publicised new dynamic within the emerging “market” paradigm is the attention paid to the growth of for-profit providers of higher education, particularly such publicly traded institutions as the University of Phoenix. Reports on the growth and change in the emerging for-profit, degree-granting arena often mingle data on the broader “education industry” in the United States with data on for-profit providers of degrees. While the overall education “market” has been estimated at nearly 250 billion dollars a year, incorporating some fifteen million students, the for-profit, degree-granting providers account for a substantially smaller portion of the total (Gay, 1998). The three most often cited degree-granting universities, the University of Phoenix, DeVry Inc., and Strayer Education Inc., together account for about 125,000 students and nearly one and a half billion dollars in revenue. For perspective, the three largest for-profits have fewer students and about one sixth of the
The recent growth in the provision of higher education for profit in the United States has been widely documented in media accounts as the coming of an era that will significantly reshape higher education institutions (Mangan, 1999; Strosnider, 1998; Garber, 1996). With a few exceptions (Winston, 1999; Breneman, Pusser and Turner, 2000; Ortman, 2000), emerging literature has been produced by proponents of for-profit provision of higher education (Garber, 1996; Sperling, 1997; Stallings, 1997; Marchese, 1998), or stock analysts working to encourage investment in the higher education industry (Soffen, 1998; Gay, 1999; Block, 1999). Scholarship on the global level has been somewhat more thorough, ranging from descriptive approaches to the for-profit sector (Tooley, 1999) to theoretical analyses, such as the work of Cunningham (1998) on global media and new forms of provision. Yet a signal gap in understanding remains unbridged, one that has more to do with ideology and theoretical standpoints than with any dearth of information on what is actually happening in the higher education sector in the United States and elsewhere.

In this paper I suggest that the growth of for-profit education in the United States over the past ten years can be better understood as a product of longer term political shifts in the higher education policy arena, and in the higher education institutions themselves. More specifically, I suggest that the growth of the “market,” the rise of for-profits and the growing convergence between nonprofit and for-profit forms derive from an essential shift in the political economy of American higher education. This shift is characterised by a decline in support for the direct public provision of higher education, and a shift in the provision of State subsidies for higher education. The shift in subsidies has had the effect of encouraging individual human capital development, privileging higher socioeconomic status (SES) students, and enabling students to use increasingly larger public subsidies at for-profit institutions.

The State and the provision of higher education in the United States

To better understand the dynamics of this shift and the distinction between nonprofit and for-profit forms requires turning attention to the tension between the historical role of the State as a direct provider of higher education in the United States and the emerging market discourse applied to public institutions. This pursuit benefits from the application of State theoretical perspectives to theories of the structure and process of nonprofit enterprise (Hansmann, 1980, 1999; James and Rose-Ackerman, 1986; Oster, 1997; Weisbrod, 1998; Pusser and Ordorika, in press). These works present economic analyses of the comparative advantages and limitations of nonprofit enterprises, including higher education institutions.

Public subsidy and public supply

In a pioneering and thoughtful treatment of the State and the market for European higher education, Hansmann (1999) posits two key distinctions for thinking about shifting institutional forms in higher education. He points to the difference between what he calls “public subsidy versus public supply,” and the distinction between “supply-side” subsidies and “demand-side” subsidies (1999, p. 4). Hansmann uses the term public subsidy to encompass the use of public funds to pay for a good or service produced at an institution that may be public or private,
for-profit or nonprofit. Public subsidies can be either directed to the institutional provider (supply-side subsidies), or to the consumer in the form of grants, loans, tax credits and so forth (demand side subsidies), that may be used at any number of institutions and institutional types.

“Public supply” of higher education refers to public ownership of the institution directly providing the educational good or service. In the case of higher education in the United States, the direct State provision of higher education is sited in public, nonprofit institutions. Hansmann (1999) suggests that there are different rationales for public subsidy and public supply, and that in the contemporary environment there may be less call for public supply.

Hansmann’s primary argument for public supply addresses efficiently utilising public subsidies, and expanding capacity. The efficiency rationale suggests that in a public institution the State is both the provider and the distributor of public subsidies, and hence can exert more complete control over the effective use of the subsidy. The capacity rationale is that private nonprofit institutions generally lack incentives to expand capacity, while State owned institutions can be built or expanded more directly. Under public supply the State provides support directly to institutions that are State owned, to encourage particular outcomes, expansion of capacity, and the creation of specific programs or competencies. The nonprofit organisational form of State institutions has assured, under the non-distribution constraint, that State funds will go directly to producing the good or service required. Direct State grants to for-profit institutions has not yet begun in the United States, under the assumption that the benefits the State seeks through direct contribution to those institutions would be reduced by the amount of profit taken by the for-profit provider (Weisbrod, 1998).

The State’s historical reluctance to provide direct grants to for-profit institutions is currently under political challenge in the United States and abroad (Burd, 1998a; Hebel, 1999; Tooley, 1999, IFC, 1999). For-profit providers are actively seeking direct state contributions to their institutions, as well as increased grant and loan aid for their students, in order to “level the playing field” in the postsecondary market. State grants (as opposed to loans) to students in U.S. for-profit institutions are now approaching 250 million dollars annually (Selingo, 1999).

The making of direct financial grants to for-profit institutions outside of the United States has already begun. Tooley (1998) has noted the efforts of a World Bank subsidiary, the International Finance Corporation (IFC) in providing direct financial contributions to for-profit providers as part of a program to expand the supply of higher education opportunities in third world nations (IFC, 1999).

**Demand-side subsidies**

Theorists of the nonprofit provision of public goods have noted that public subsidies to students for the purchase of higher education may serve to overcome market imperfections that prevent individuals from financing education without such subsidies (Weisbrod, 1998; James, 1998). It has also been argued that in the absence of public subsidies there exists the possibility that students will under-consume highly specialised forms of higher education, particularly those with uncertain returns.

Hansmann also questions whether higher education should be publicly provided or subsidised on the basis of “public goods” arguments. His contention, emblematic in many respects of the progression of neo-classical economic discourse in higher education, is that any public benefits are minimal in proportion to the private benefits generated by higher education (c.f., Friedman, 1962; Friedman and Friedman, 1980; Bound and Turner, 1999; Hansmann, 1999). A number of other social scientists and public policy leaders, most notably President Clinton, have taken exception to this stance, arguing that there are significant public goods generated by State investment in higher education (Winston, 1999; Marginson, 1997; Labaree, 1997; Levin, 1991).

Under State subsidy students may choose to use state and federal grant and loan funds at State institutions, private nonprofits, or for-profits. In the United States this “portability” of subsidies is a relatively new phenomenon, dating back to the Higher Education Amendments of 1972. It is worth noting that the evolution of State support for higher education, the contemporary market ideology, and the rise of for-profit degree-granting providers in U.S. higher education can all be traced to key political struggles.

**Evolving institutional forms in higher education in the United States**

Predictions similar to those being promulgated today about the re-invention of the provision of higher education also proliferated at the beginning of the twentieth century (Veysey, 1965; Starr, 1982). At that time there were State controlled institutions of higher education throughout the country (Goldin and Katz, 1998), and a number had recently been added in response to the Morrill Act.

At the dawn of the twentieth century for-profit (proprietary) institutions held a significant share of the market for training in law, and medicine, and were significant competitors with the State for the provision of business training and various other forms of vocational education. Then as now, the for-profits were also linked closely to new technologies, in that case the typewriter and other business machines (Goldin and Katz, 1998). The ascendancy of for-profits in that earlier period was short-lived. The release of the Flexner report in 1910 revealed significant impropriety in the provision of for-profit medical educa-
tion and led to a re-evaluation of the regulation of for-profit education of all types (Starr, 1982).

From the early part of the twentieth century forward, the nonprofit form of degree-granting higher education institution in America has been dominant (Veysey, 1965; Goldin and Katz, 1998). While degree-granting for-profits have persisted throughout the twentieth century, as measured by enrolments, institutional size, endowments and prestige, nonprofit institutions have been the leaders. From about 25 per cent at the turn of the twentieth century, the percentage of students enrolled in nonprofit post-secondary institutions had grown to 78 per cent by 1996 (Goldin and Katz, 1998). The dominance of the nonprofit form in contemporary institutions as measured by prestige, size of institutions, enrolments and degrees granted, continues the historical pattern (see figures 1-6).

A number of factors have been advanced to explain the dominance of nonprofits in the twentieth century. Certainly the late nineteenth century founding of the “land grant colleges” under the Morrill Act, with its emphasis on agricultural extension research, teacher training and personnel development laid the financial and philosophical foundation for major public nonprofit universities in many states. The end of World War II witnessed significant State directed capacity building through the construction of new State owned campuses and expansion of existing facilities in response to the G.I. Bill. This effort was particularly evident in the rapid expansion of the community colleges. The number of nonprofit U.S. community colleges doubled from 1920 to 1950 and doubled again.
from 1950 to 1980. From a total of 8 community colleges at the turn of the twentieth century, by 1998 there were nearly 1600 community colleges (Cohen and Brawer, 1996). The funding for this expansion, the legal authority, the co-ordination and control, all required significant State effort.

Supply-side subsidies
The growth and dominance of nonprofit provision in the U.S. has also been encouraged by supply-side subsidies. These have taken on two primary forms, direct State grants to nonprofit higher education institutions and loan guarantees provided for institutionally directed loan programs. State grants have traditionally been awarded to both State owned and private nonprofits. The loan guarantee programs date to the creation of the federal Guaranteed Student Loan (GSL) program in 1965. From modest beginnings the GSL has grown to provide something on the order of thirty billion dollars annually in student credit (Breneman, 1992; College Board, 1999). A key feature of the adoption of the GSL program was that loan funds were made available directly to institutions for their students, and proprietary schools were excluded from the program.

Demand side subsidies
The first mass introduction of demand side higher education subsidies in the United States accompanied the implementation of the GI Bill. The GI bill was notable for its scale, with over 2 million veterans taking advantage of the program upon returning home and because grants for tuition and living expenses were awarded directly to individuals, not to institutions (Bound and Turner, 1999). Program beneficiaries were required to attend accredited institutions, and proprietary institutions became major beneficiaries of the GI bill funding. This was to some degree an unintended outcome. When educational benefits were provided to Korean War veterans, funding was restricted so that many proprietary programs were not included (Bound and Turner, 1999).

In 1972 perhaps the single most important financial instrument ever introduced into the United States was created: the Basic Educational Opportunity Grants (BEOGs, now known as Pell grants). BEOGs, need-based grants for undergraduate students, were a key aspect of the Higher Education Amendments (HEA) of 1972. A fundamental point of contention at the time was whether the BEOG grants would be a demand side subsidy. University advocates opposed direct grants to students, advocating instead for increased direct federal payments to institutions. The contest was won by the demand side advocates, with BEOGs adopted as a vehicle for directing funds to students for use at the institutions of their choosing. Proprietary institutions were included in the grant program, and thereafter included in all federal student aid programs (Breneman, 1992).

The importance of BEOG/Pell grants to proprietary schools, and the importance of State regulation of those funds, is evidenced by the change over time in the proportional share of Pell grants going to students in proprietary (for-profit) schools. In academic year 1973/74, 7 per cent of all Pell funds went to students in proprietary institutions. By 1987/88 over 26 per cent of all Pell grant funds went to students in proprietary institutions. Subsequent changes in federal policy have reduced the percentage over time, until in 1993/94 it was barely over 15 per cent (Breneman, Pusser and Turner, 2000).

The re-authorisation of the Higher Education Act (HEA) in 1998 generated significant political contest over the status of proprietary schools. With the help of a concerted lobbying effort and significant campaign contributions to members of Congress, for-profits again made major gains (Burd, 1998). A number of constraints that had been placed on for-profits after loan default scandals in the 1980s were removed and proprietaries achieved unprecedented status under Title IV, the act governing federal grant and loan programs. From World War II through the re-authorisation of HEA, the State commitment to demand side subsidies and the degree to which those subsidies have been made available to students in for-profit schools have been fundamentally political, rather than institutional decisions.

The State and for-profit provision
Whether State support for higher education takes the form of direct provision or demand side subsidies (and at the present it takes both), it is worthwhile to consider what the advantages and disadvantages of extending those subsidies to for-profit entities will be.

The fundamental contemporary argument for making State subsidies—either direct financial support or grant and loan funds—available to for-profit institutions or their students is the perceived productivity and efficiency gains yielded by greater competition among institutional forms (Hansmann, 1999). It is also suggested that subsidising for-
profits is a useful avenue for the expansion of higher education capacity (Tooley, 1998; IFC, 1999). These arguments suggest direct State provision has led to an under-supply of higher education, and that “seeding” for profits will help remedy this situation. Ironically, this may be a politically effective, yet highly inefficient solution. Hansmann (1999), Kerr (1994) and others have argued that the State has exceptional advantages in rapidly expanding the supply of higher education. This would certainly appear to be borne out by the historical record in the United States.

### The disadvantages of subsidies to for-profits

Since the turn of the twentieth century policy makers have struggled with the issue of subsidising for-profit institutions that provide services such as education and health care. As noted, the Flexner report (1910) gave an indication of the level of fraud and incompetence in for-profit provision of medical education. Fifty years later the enormous default rate on loans to students in proprietary schools led to congressional hearings and increased regulation of for-profit education. The information asymmetries inherent in the production and consumption of health care and education have at various historical moments left consumers vulnerable to opportunism by for-profit seekers (Breneman, Pusser and Turner, 2000). Another key consideration is that no amount of subsidy can compel a for-profit or a private nonprofit to produce a specific educational good or outcome. That is, if there are goods that have public benefits, but that individuals may not readily invest in, then for-profit institutions, and to a lesser degree private nonprofits, are unlikely to offer those goods. State goals for the production of such public goods as a diverse and integrated educated populace can only be assured through direct State provision of those public goods.

State efforts to achieve integration and redress discrimination in the distribution of higher education, for example, have been directed on two dimensions: through policies such as affirmative action, directly affecting State institutions; and through laws and regulations affecting for-profits and private nonprofits that receive State funds or contracts. Neither private nonprofits nor for-profits are obligated to accept State subsidies. It has been noted in the literature on publicly traded for-profit higher education institutions that they are moving increasingly to providing student loans themselves, a move that would further insulate them from public regulation (Soffen, 1998).

### Higher education as a private good

The role of direct State provision has also been challenged on a number of other dimensions since the passage of the Higher Education Amendments. Contemporary shifts in the student aid system have created considerable political and institutional conflict. Financial aid policies have shifted over the past decade from historically low rates of tuition to “high fee, high aid” models (Griswold and Marine, 1996) accompanied by a fairly sudden and dramatic shift in the balance of aid from grants to loans (College Board, 1999). Most recently, the use of tax credits to lower the cost of middle and upper-middle class student access has offered additional benefits to wealthier students and their parents (Hebel, 2000).

Taken together these shifts in the political economy of higher education in the U.S. over the past decade point to the increasing conceptualisation of higher education as a “private good.” Shifts in resource allocation, such as the relative decline in state contributions to public institutions have been well documented (Slaughter and Leslie, 1997; Gumport and Pusser, 1995, 1999). There has also been a marked shift in the burden of paying for university attendance from the collective to the individual (McPherson and Schapiro, 1998). Public institutions have also begun to charge differential tuition for various courses of study. In the University of California system, for example, fees for an MBA are about twice the cost of fees for an MA in Education. The institutional argument for these higher tuition rates has been that the higher returns to individual students from their degrees justify higher tuition (Gumport and Pusser, 1999).

### The convergence of nonprofit and for-profit institutional forms

Over the past decade a number of researchers have noted a variety of shifts in the traditional management practices of nonprofit higher education institutions in the United States (Readings, 1996; Slaughter and Leslie, 1997; Gumport and Pusser, 1997; Levin, 1999; Aronowitz, 2000). These shifts, whether attributed to demands for institutional restructuring, university mission drift, the rise of the research imperative or globalisation, fundamentally describe emerging university initiatives designed to address the institution’s efforts to maintain or increase levels of revenue in light of a changing political economy for higher education (Pusser, 1999). At the same time, a complementary literature on the growth of degree-granting for-profit institutions has emerged, one that suggests nonprofit institutions must be competitive with emerging market forces, rent-seeking, and entrepreneurial in order to succeed in the new millennium (Marchese, 1998; Clark, 1998; Goldstein, 1999).

Two fundamental points must be made about these claims. First, there is nothing inexorable about the shifts that are taking place; they are the result of specific institutional strategic choices (Gumport and Pusser, 1999; Slaughter and Leslie, 1997). Second, for the most part they are elements of a continuum of revenue seeking strategies that has been developing for over three decades, and arguably since the end of World War II (Lowen, 1998).
On the first point, higher education institutions, particularly research universities, have justified seeking new and entrepreneurial revenue streams on the basis of declining direct state funding support (Atkinson, 1997). As Figure 7 shows, for the contemporary period (1988-1996) most often cited as a time of "crisis" in state funding for higher education (Gumport and Pusser, 1999), total state appropriations to higher education actually increased, albeit slightly, for the fifty states taken together, and for the ten largest states taken together. However, as Figure 8 shows, over the same period of time state appropriations to research universities declined slightly.

Other sources of revenue shifted in quite different ways. Total revenue from tuition and fees at research universities for the same period increased nearly 50 per cent in constant dollars (see Figure 9). Tuition and fee revenue for research universities has nearly tripled in constant dollars since 1975 (see Figure 10).

This latter increase in the price of higher education has been accompanied by a significant increase in annual student indebtedness (see Figure 11) having more than
doubled between 1989 and 1999. It is also worth noting that the capitalised annual return on endowments for the 513 institutions with the largest endowments in the United States was over 300 per cent for the period 1989-1999 (CHE, 2000).

Despite these increases in traditional sources of revenue, research universities have continued to pursue revenue through other sources, most prominently from external research funds, and through such commercial activities as patent licensing, auxiliary enterprises and continuing education programs. The rapid growth in post World War II federally funded research has been well documented (Geiger, 1993; Slaughter and Leslie, 1997; Lowen, 1997) and reached just over fifteen billion dollars in 1997 (Press and Washburn, 2000). Considerably less attention has been turned to the significance of commercial revenue generating activities. These rapidly growing forms of revenue generation by nonprofit higher education institutions point to the emergence of a hybrid form of institution, one that entails a great deal of “for-profit-like” revenue seeking behaviour. Interview data collected at institutions with significant “commercial” revenue generating practices indicate that there are a number of challenges to traditional nonprofit institutional behaviour inherent in these activities.

Convergence: the hybrid form

Through the lens of one of the dominant models for thinking about nonprofit behaviour, the problematic aspects of the increasingly hybrid form of nonprofit higher education institutions come into focus. Weisbrod (1998), following on James and Rose-Ackerman (1986), suggests that nonprofit institutions provide varying amounts of three distinct types of goods. He labels these as preferred collective goods, preferred private goods and non-preferred goods. It follows that the State interest in the direct provision of higher education is in the optimal production of the preferred goods of higher education, and to the extent that the pursuit of non-preferred goods detracts from the production of preferred goods, non-preferred activities are not in the State interest.

In Weisbrod’s terms, preferred goods are those outputs most closely related to the nonprofit’s particular mission. For institutions in most segments of the nonprofit postsecondary arena, that would refer, in the broadest sense, to some mix of teaching and service. At those institutions that conduct significant amounts of research, the research function would constitute a third arena of preferred goods.

In the case of nonprofit higher education institutions, preferred collective goods (those preferred goods that generate essentially collective benefits) would include, for example, basic research and community service. Preferred private goods (those preferred goods that generate essentially private benefits) would include access for individuals to higher education institutions and elite credentials, and direct financial subsidies (although each of these also can be construed as having collective benefits as well).

Non-preferred goods are those goods produced by the nonprofit institutions primarily for the purpose of revenue generation, as for example, the rights to advertising on campus. Non-preferred behaviours, such as raising tuition, are those behaviours or activities that constrain the production of a preferred good, such as broad student access. A number of non-preferred behaviours, the auxiliary enterprises for example, have been growing quite rapidly over the past two decades’.

While auxiliary enterprises may contribute indirectly to the core activities of institutional mission, core activities are often conducted quite adequately by institutions that do not provide housing, do not participate to any substantial degree in athletics, do not provide food service and the like. The growth of auxiliary enterprises, patent licensing (Powell, 1998; Slaughter and Rhoades, 1997) and other forms of commercialisation is an area at once condoned by, and problematic for, the broader State.

The State and commercialisation

A number of researchers in higher education have raised the possibility of negative consequences from the recent growth in auxiliary and other commercial enterprises (Oster, 1997; Slaughter and Leslie, 1997). Three of those consequences are of primary interest here. First, research on nonprofit behaviour in other sectors such as hospitals and museums suggests that commercial enterprises draw organisational attention away from core mission activities and require a “commercialisation” of the managerial cohort in nonprofit institutions. Increasing managerial attention and expertise devoted to commercial pursuits reduces attention and expertise directed to the nonprofits’
core mission functions (Powell and DiMaggio, 1991; Oster, 1997; Weisbrod, 1998).

Second, commercial activities other than the auxiliary enterprises, particularly continuing education programs, industry-university partnerships and commercial research activities may create significant revenue and asset differentials between disciplines within higher education institutions. The implication in much of the planning and management literature is that successful auxiliary enterprise and commercial activities may "cross-subsidise" areas of the institution that have less potential for revenue generation (Blustain et al, 1999; Goldstein, 1999). To date there is little if any empirical substantiation of such cross-subsidisation.

The third primary consequence of increasing revenue from auxiliary and commercial enterprises is that this behaviour may lead to shifts in other sources of income, such as private donations and legislative block grants. While Weisbrod (1998) and Winston (1999) suggest this may lead to decreases in block grants and donative income, some institutional leaders suggest that success in auxiliary enterprises and commercial activity may lead to increased legislative and donor support (Atkinson, 1997).

**Implications**

The rise of for-profit providers in the United States, particularly degree-granting institutions, is usually reported as a challenge to nonprofit institutional hegemony. That may or may not be the case, but even if that claim is accurate, the discourse of a threat to nonprofit dominance masks a broader and more important question about the traditional State interest in higher education, and the role of higher education as a public good. The presentation of for-profits as a threat to nonprofits also obscures the issue on a number of other levels. For-profits are characterised as independent, entrepreneurial and supported by venture capitalists and public stock offerings. As this research indicates, the for-profit degree-granting institutions rely on significant State subsidies for their success. In addition to grant and loan funds made available to students in for-profits, many students in for-profit institutions have some portion of their tuition paid by their employers. Those employers in turn receive significant tax deductions for these payments. Clearly then the for-profits are not independent of the State; they are beneficiaries of State action and resources. The rise in State subsidies to for-profit degree-granting institutions, and other forms of for-profit provision, point to the shifting nature of State commitment to nonprofit higher education as a public good, and of a nascent political retreat from direct State provision.

The growth of non-preferred behaviours by nonprofit higher education institutions points to the need for a better understanding of institutional cross-subsidisation. One justification for engaging in non-preferred behaviours has been that those behaviours generate surpluses that can be applied to the institutional production of preferred goods. On the basis of interviews conducted for this research, there is reason to question the degree to which this cross-subsidisation is taking place. The generation of surpluses through auxiliary and commercial enterprises and the challenges to cross-subsidisation are a key area for future research.

This research also raises a question rarely addressed in higher education: how do we define preferred behaviour in nonprofit institutions? More specifically, what are the political and economic forces both within and outside of these institutions that determine the types and amounts of preferred and non-preferred goods produced? While there is a fairly active debate on the limits of "mission related behaviours" for tax purposes (a debate that will increasingly be driven by-for-profit competitors), the broader question of the State role has been subsumed in a plethora of no less important, but perhaps more narrowly focused conversations about state block grant contributions, capital requirements, shifts in financial aid, access and diversity.

At the heart of all of these inquiries is an issue central to State theory, the role of contest. State theoretical perspectives suggest that there is an essential tension between demands for State support of economic development and demands for State redress of the inequities that have too often resulted from that development (Carnoy and Levin, 1983). It may be that the persistence of State provision of higher education in the United States speaks directly to the latter point. For without State provision it may be that those who have traditionally not been the beneficiaries of economic development and privilege would have nowhere to turn. As some of our most prominent State owned and State subsidised nonprofit higher education institutions face increasing pressure to adopt hybrid forms and for-profit behaviours, researchers face an unprecedented challenge to document what has gone before and to envision what might be lost or preserved for the future.

**Bibliography**


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Endnotes

1 In this paper the State refers to what Barrow has described as “a social-industrial complex of overlapping public (and even nominally private) associations that formulate policy, exercise regulatory authority, and assist in social control from a variety of institutional centers. It encompasses an array of relatively autonomous institutions that include civil administration; the legal system; professional police, military and intelligence forces; interest groups; parties; professional associations; public corporations and education institutions (Barrow, 1990).

2 The GI Bill was introduced as the Servicemen’s Readjustment Act of 1944.

3 The Morrill Act (1862) provided federal land to states to sell for the purpose of raising funds to establish colleges.

4 Those GI bill recipients constituted nearly 70% of male enrollment in postsecondary education in the years immediately following the end of the war (Bound and Turner, 1999).

5 Under the California constitution UC is not allowed to charge tuition. Over time fees have risen so that the fee for an MBA at UCLA is in the order of $12,000 per year.

6 Auxiliary Enterprises include campus housing, bookstores, cafeterias and food service, parking, residence halls, and intercollegiate athletics.

7 On Figure 12 “Revenues from Other Sources” represents a category of auxiliary enterprise revenue treated separately for accounting purposes. Total annual revenue from all auxiliary enterprises (“Revenues from Auxiliary Enterprises” and “Revenues from Other Sources” on Fig. 12) has nearly doubled in constant dollars for 1975-1996.