



**Redefining Competition
Constructively: The Challenge of
Privatization, Competition, and
Market-Based State Policy in the U.S.**

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American Council on Education

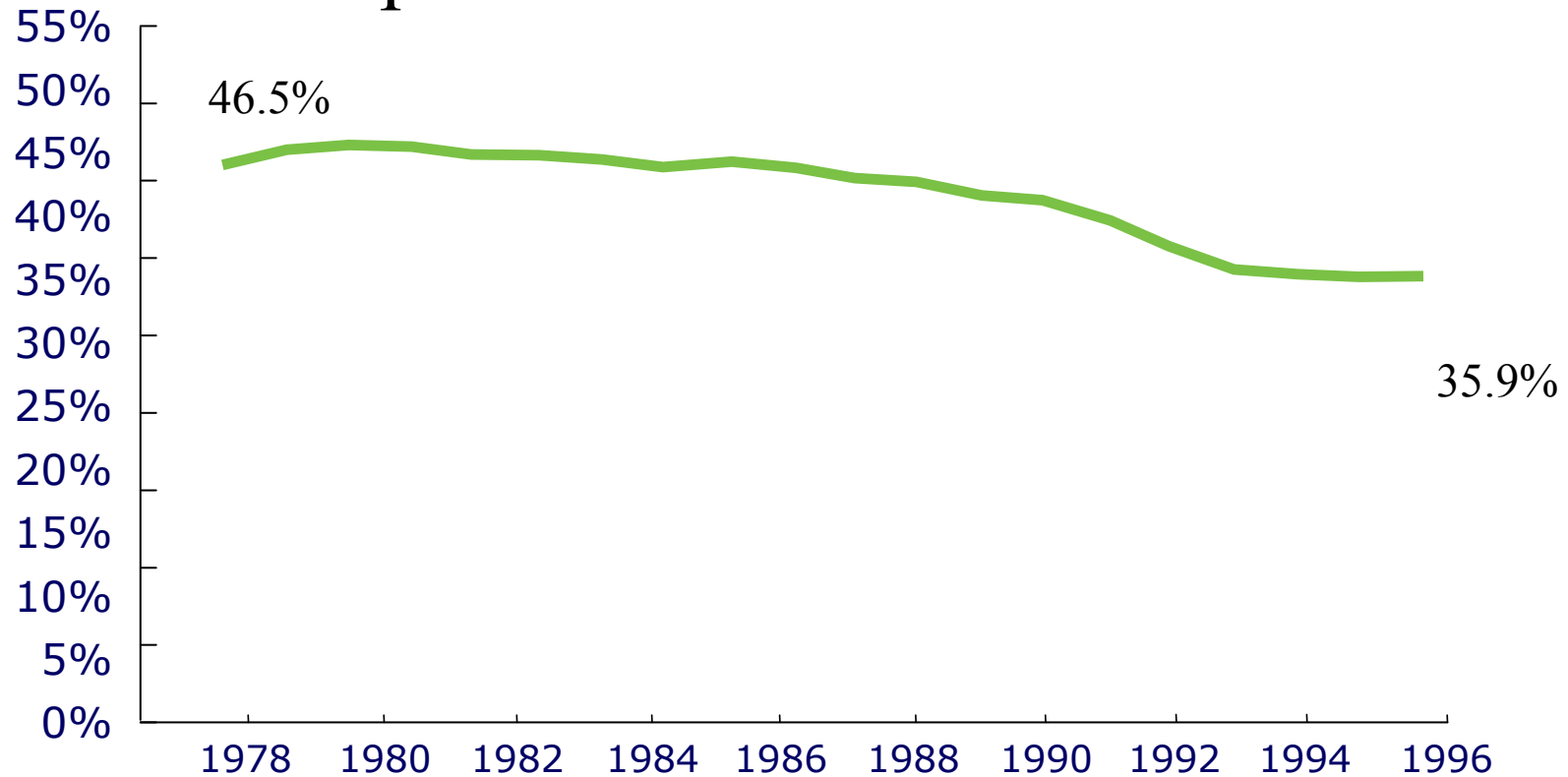
The U.S. Higher Education Landscape

- 4,200 degree-granting colleges and universities; 14 million students
- High tuition & fees; \$105 billion in financial aid
- Student choice and mobility; Shifting student demand
- Declining public support
- Changing state policy



Diminishing State Resources

As Proportion of Institutional Revenue



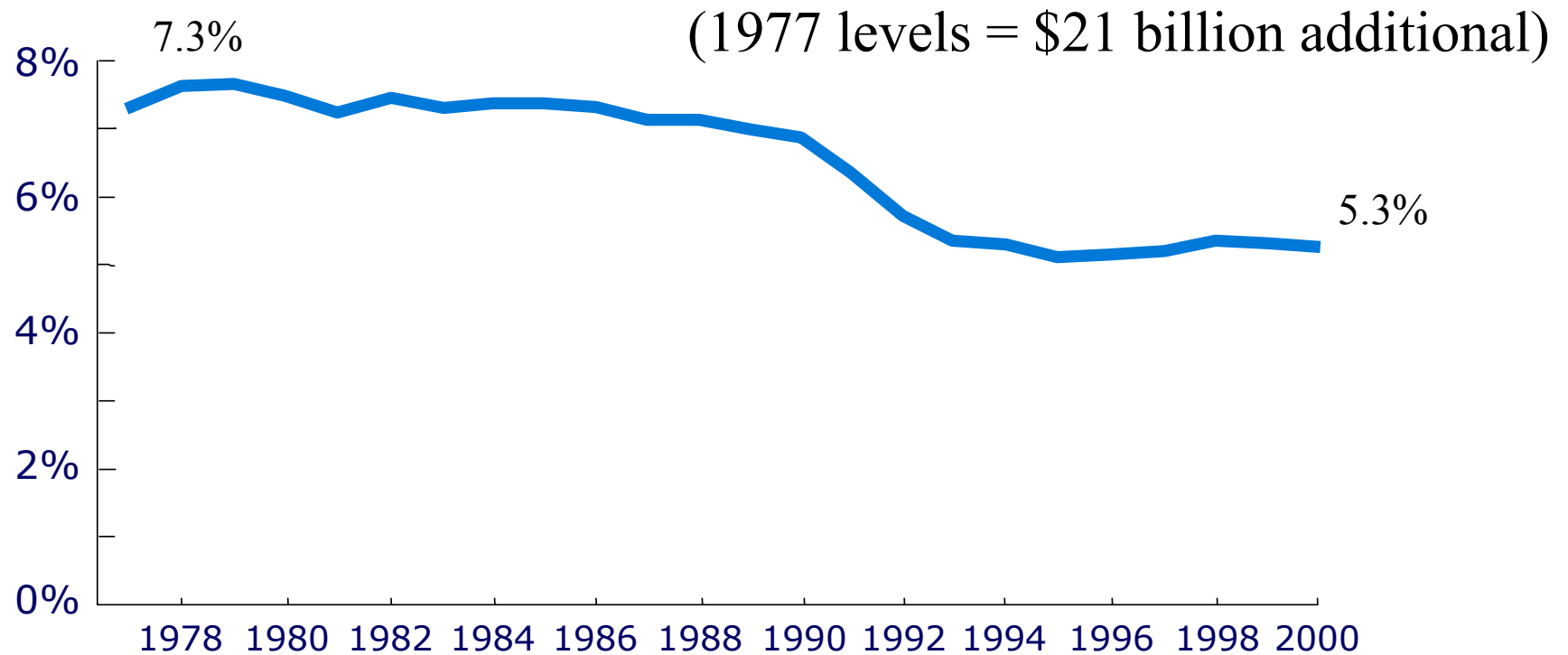
Source: *State Fiscal Constraints and Higher Education Spending: The Role of Medicaid and the Business Cycle*, Thomas J. Kane, Peter R. Orszag, David L. Gunter, May 2003.

Author's calculations based on data from Center for Higher Education and Educational Finance; Bureau of the Census, Department of Commerce.



Diminishing State Resources

As share of state expenditures



Source: *State Fiscal Constraints and Higher Education Spending: The Role of Medicaid and the Business Cycle*, Thomas J. Kane, Peter R. Orszag, David L. Gunter, May 2003.

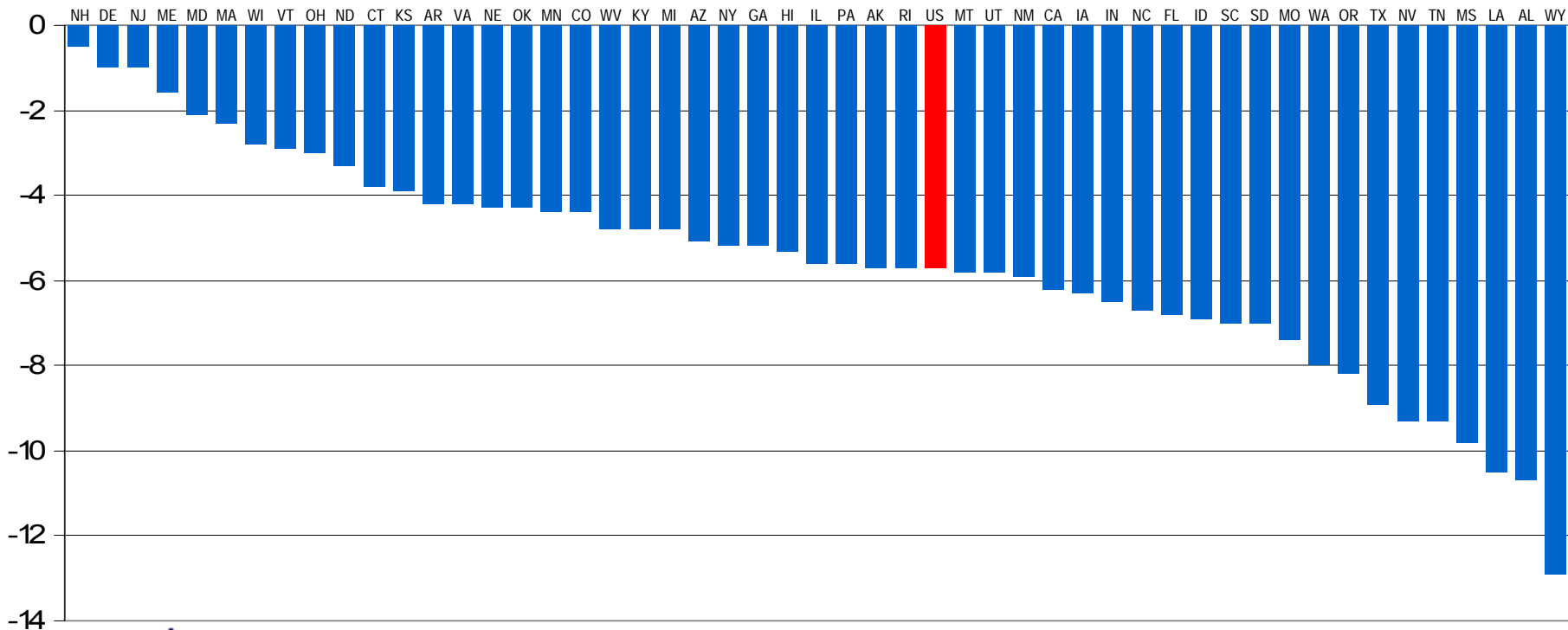
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States Are Broke: Fiscal Projections – 2005 - 2013

State and local surplus or shortfall as a percent of baseline revenues



Source: National Center for Higher Education Management Systems (NCHEMS)

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Changing State Policy Environment

States: MA, MD, TX, OH, CO, VA

Sum Effects:

- Greater market orientation; encourage commercialization and entrepreneurship
- Ability to set and keep tuition
- Procedural autonomy; less regulation
- Increased accountability and performance measures



Increasingly Competitive Playing Field

- For-profit providers
- Online opportunities
- Publics acting like independents
- Independents acting like publics
- Higher education abroad



Tensions: Public Interest vs. Competitive Marketplace

Public Interest

- Affordability
- Access
- Quality*
- (Economic development)

Marketplace

- Resources
- Attractiveness
- Quality**
- Prestige
- Opportunities

Redefining Competition: Porter & Tiesberg: Health Care Thesis

- “Healthy competition”
 - › Process improvements drive down costs
 - › Innovations improve quality
 - › Markets expand to increase access
- Current nature of competition is dysfunctional
- Problems with cost, quality, and access



Competing Differently

- By competing differently can U.S. higher education advance its public objectives given the pressures of the competitive marketplace?
- Can competition improve access, lower costs, and increase quality?

Health Care's (and Higher Education's) Competitive Problems

1. *Level of competition:* University program level
2. *Objectives of competition:* Input variables not outputs (i.e., student learning)
3. *Over the wrong things:* For students with best scores and grades not who will benefit the most or who have broader talents

Health Care's (and Higher Education's) Competitive Problems

4. *Size and shape of the competitive arena:* Geographic proximity and cross-sector/missions; cross-state lines for talented students
5. *Information available:* U.S. News & World Report rankings
6. *Wrong incentives at work:* Prestige and status based on research model and student quality inputs



Redefining Competition in U.S. Higher Education

- Is it possible to compete over costs that are transparent (net price vs. posted price)?
- How do current definitions of “quality” affect competition?
- Is the right information available? Can meaningful comparisons be made between diverse institutions?



Redefining Competition in U.S. Higher Education

- How might specialization improve cost, quality, and access?
- Can institutions compete at a program or course level?
- Can alternative incentives that prize learning, serving disenfranchised students & meeting state needs be created?



U.S. Higher Education Faces “A Long Climb”

The Great Texas Climbing Wall Battle

- **“The competition for students and recognition is fierce in Texas ... the new distinction [of the biggest climbing wall] will help separate [the University of Texas, San Antonio] from the rest of the pack. The wall... beats out [the University of] Houston's wall by one measly foot. That should sound familiar to Houston officials. Two years ago they built their climbing wall to be exactly one foot taller than the one at Baylor University.”**
- **Texas State at San Marcos plans to build in 2008 “the tallest Texas collegiate climbing wall.”**

