The Publicness of Private Higher Education: Examples from the United States[1]

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For the past quarter-century the dominant trend in higher education in the United States and throughout much of the world has been privatisation. One prominent theme has been the increased dependence of public institutions on private sources of funds. Less conspicuous has been the tendency of private institutions to claim growing amounts of public resources. This paper will explore public-private dynamics in the U.S. by specifically focusing on two important contemporary trends: the extraordinary increase in the prosperity of selective private colleges and universities and the explosive growth of for-profit institutions of higher education. In both cases the trend toward privatisation has been fuelled in important ways by government policies and public funds.

When investigating private higher education at the end of the 1970s, I found public support for private institutions in many countries. But one theme of my study – *Private Sectors in Higher Education: Structure, Function and Change in Eight Countries* – was that the provision of public resources was accompanied by greater public control (Geiger 1986). The contrast with the present situation in the U.S. is stark. The largest public subsidy has occurred through the federal system of student financial aid, and it has been free from all but accounting controls. It is helpful to at least glimpse at how the context of higher education changed in this era.

1 My thanks to Ben Jongbloed, Dan Levy and Karen Paulson for helpful comments.

The 1970s, broadly speaking, constituted a kind of culmination of the social and fiscal aggrandisement of national states in most developed, Western countries. One considerable accomplishment of this movement was to build the foundations of mass higher education. By the end of the decade, some doubts about these developments were being voiced – talk of the ‘crisis of the welfare state – but not in higher education. Perhaps the only dissenting gesture was the creation of the University of Buckingham, which was regarded literally as a quixotic gesture by the university establishment, and also by some of its founders! Private higher education was off the radar screen or, as in France and Sweden, vestigial survivals of greatly diminished private sectors.

In other countries, where it was too large to ignore, something else had occurred: the private sector was increasingly assimilated with the public sector. In Japan and Belgium this brought a large infusion of public funding. But with those funds came stringent bureaucratic control. Public agencies did not trust private institutions; and they were intensely concerned about upholding quality. The result in Japan was subsidies that were increased or diminished according to a complex set of performance measures. In Belgium, rigid formulae for instructors per student and square meters of classrooms were imposed in order to achieve the chimera of ‘equality’ between private and public universities. The Philippines, lacking the resources to subsidise the private sector, nevertheless required, among other things, daily class attendance reports to be filed with the Ministry of Education.

Even in the United States, the 1970s realised a longstanding prophecy that federal money would bring federal control. Universities became subject to a host of federal regulations that increased their administrative costs and decreased their freedom. The late 1970s was a kind of nadir for the private sector in the U.S. What happened next proved to be part of a worldwide movement.

Privatisation in higher education began early in the 1980s and has been gathering force ever since (Geiger 1988). It assumed three possible forms: 1) an increased reliance on private rather than public resources, particularly in supporting public institutions; 2) increasing cooperation and interaction with private industry; and 3), relative increase in the importance of private institutions of higher education, whether in size, prestige, or influence.

During the 1980s the first two processes were probably more evident in most of the world than the third. Certainly, as governments struggled (or declined) to maintain funding for systems of mass higher education, the idea of student fees, market coordination, or partnerships with industry became far more attractive. In Europe, a few experimental private institutions were established, reactions of various sorts to the perceived homogenisation or to some, stultification, of the state sector. Perhaps the largest impact occurred in Australia, where the Bond University shattered the complacency of the state monopoly (Jones and Anwyl 1987). But Bond was just a single institution, and as it turned out, a rather weak one too.

The global picture changed with the collapse of the Soviet Empire. The higher education vacuum created by dysfunctional and deteriorating communist systems was gradually filled by private ventures. Suddenly, a large part of the globe was transformed from having no private higher education to relying on a large and differentiated private sector for a substantial part of higher education needs. This transformation is not my topic, but as Daniel Levy (Levy 2002; Altbach and Levy 2005) has emphasised, it deserves recognition as one of the signal features of the current era. And one aspect is germane here. As Dmitry Suspitsen (2007) has found, leading segments of the new private sector in Russia are aligned or connected with the older public institutions. Similar arrangements seem to be emerging in the still newer private sector of China (Yan and Lin 2003). The point is that such situations do not represent a clear dichotomy between public and private. Rather, the very existence of many private institutions is predicated on access to and utilisation of public resources.

This is the situation I wish to address. On one hand, the era of privatisation has meant an increasing reliance of public institutions on private resources; and on the other hand, it has also brought a mirror-image movement of private institutions drawing on public resources. Moreover, this has not been accidental. A central thrust of the privatising agenda has been to encourage government policies that make this possible.

In the remainder of this paper I will address this situation in the United States. First, I will describe how private colleges and universities have grown prosperous by leveraging federal student aid funds into higher tuition. Next, I will try to account for the most rapidly growing part of American higher education – for-profit institutions. Lest these be considered uniquely American phenomena, let me emphasise that linking tuition and public student financial assistance is fundamental to the privatising agenda in virtually every country (Johnstone 2007). In addition, for-profit higher education is likely to appear wherever these conditions are realised.

1. Tuition and Financial Aid in the Elite Private Sector

Let me start back at the dawn of privatisation. In 1978 I attended an informational meeting at Yale. The university, it seems, was broke – or as broke as it could be with a $500 million endowment. It faced structural operating deficits and had imposed a hiring freeze. All but a small fraction of the endowment was tied up in restricted funds, leaving Yale's working capital at "the lowest tolerable level." Significantly, it felt that tuition could not be raised due to competitive conditions (Yale University 1977). Tuition that year was about $4,400.

Today, of course, Yale enjoys the greatest prosperity in its history (although it would measure prosperity against Harvard and Princeton). Tuition for 2004-2005 was $29,000, in the same range as at least 100 other private colleges and universities. Of course, there is a connection between affluence and high tuition.

Not just Yale, but the entire selective private sector has prospered in the age of privatisation. In 1980, the median expenditure per student (in constant dollars) at public research universities was $10,000, and at private ones, $11,000. In 2000 those figures were $14,000 for publics (+40%) and $22,000 for privates (+100%). For the privates, about 70 percent of that figure represented tuition income, a figure that has remained fairly steady over two decades. Private sector prosperity rested mainly on increases in tuition but also on the growth of other sources of income (Geiger 2004a, pp. 28-42).

In other words, the private sector was highly successful not only in raising tuition, but also in tapping other sources of funds. These gains came primarily through the appreciation of their portfolios and from gifts. Still, the ability to attract large donations seemed to rest with the same factor that permitted outsized increases in tuition – institutional prestige.

In the U.S., prestige in undergraduate education is largely determined by selectivity – the academic ability or attainments of entering students. However, the obsession with prestige, and the pecking order produced by magazine rankings, only affect a minority of American students. Perhaps 15 percent of full-time (4-year) students seek and find places in the selective sector. They represent a large portion of the brightest and wealthiest students. They believe, with some justification, that attending the most selective school that will have them will produce lifetime benefits in earnings and careers. For their part, universities have believed, again with good reason, that qualitative competition through increased spending will make them more attractive, and hence more selective. The U.S. system has always exhibited some of these dynamics, but in the last two decades the push for selectivity and qualitative competition among institutions has been exaggerated to the point of dominating the system (Geiger 2004a, pp. 77-83). Moreover, these dynamics have propelled the steep escalation of tuition, but not alone. The fuel that made this possible was student financial aid.

This system evolved as follows (Geiger 2004a; 2002; 2004b, pp. 161-184). Going back to 1978 again, Harvard, which then charged the highest tuition, broke ranks by raising its tuition aggressively for the next several years. It compensated somewhat by increasing its own financial aid to needy students. This approach was assisted by Congress, which amended the student financial aid statutes to make subsidised loans available to all students. This was done during a time of nearly runaway inflation. Soon large numbers of students were taking government loans, whether they needed them or not. Eventually, some controls were re-imposed, but the volume of loans scarcely subsided. Americans love credit. The 1980s saw the emergence of a student loan culture that has only grown since.

The system of student finance that emerged by the late 1980s was amazingly beneficial for institutions. Student expenses for attending college were met in four different parts.

- First, how much they could afford to pay. This was called the expected family contribution, and it was determined by a formula that combined income, assets, and obligations;
- Second, direct financial grant aid. Federal (Pell Grants) and state grants are determined almost entirely on the basis of financial need, so that only lower-income students are eligible. Work-study programs are similarly limited by income. These programs cover only a portion of the cost of attendance;
- Third, federal subsidised and unsubsidised loans. Subsidised loans have income limitations and are also capped. Nevertheless, they provide a significant fraction of the cost of attendance. Unsubsidised loans are also available and rapidly growing in importance;
- Fourth, institutional student aid, also called tuition discounts. If the maximum possible revenue from the first three sources is less than the cost of attendance, the institution essentially waives the remaining fees as an institutional scholarship, or tuition discount.

These last two components were the innovations of the 1980s. The emergence of the loan culture simply allowed students to pay far more than would otherwise have been possible by tapping future earnings.

This additional purchasing power made it much easier for institutions to raise tuition. And so did the expanded use of institutional aid. Ivy League schools had always provided some institutional aid, but most private colleges and universities offered very little. This changed in the 1980s as the advantages of 'high-tuition/high-aid' approach became widely recognised.

The genius of high-tuition/high-aid as a social invention is that the final increment of student expense is met through institutional aid. By adjusting institutional aid, or the discount, according to what each student can pay, a system of differential pricing evolved. Each student is charged the maximum he or she can afford. Price sensitive students are subsidised; those who can afford it are charged full price. Under these arrangements, institutions have experienced no resistance, in an economic sense, to increases in tuition – verbal protests occasionally, but no decline in demand. If anything, their popularity has grown. Highly selective institutions have thus faced an almost perfectly inelastic demand curve.

The system of high-tuition/high-aid has long been advocated by economists as the most equitable means of financing higher education. Still, it came about not as conscious policy, but through the evolution just described. Loans were originally meant to be a backstop for students in adverse circumstance. Developments in the early 1980s made them instead the mainstay of federal support for higher education. However, the unanticipated consequence was to set in motion forces that produced VERY high tuition. And this situation has had unwelcome repercussions.

First, as tuition rises, fewer students can pay the full amount and more require institutional aid. As the amount of aid rises, the yield from tuition drops. From 1990 to 2002, the rate of tuition discount at private universities rose from 20 percent to 30 percent. At the latter figure, a \$10 dollar increase in tuition brings \$7 additional dollars. For private colleges, which are smaller and for the most part less affluent, the tuition discount rose from under 30 percent to over 40 percent (Lapovsky and Hubbell 2003). Higher tuition thus generates pressure for still higher tuition.

Second, this approach has made selective private institutions increasingly dependent on students from high-income families. The most selective schools have stabilised their tuition discount by recruiting large numbers of full-payers. The top schools can do this because wealth, good schooling, and high achievement are so closely correlated. The result, however, is that the greater the selectivity of an institution, the lower the percentage of students qualifying for financial aid. In the Ivy

League, 54 to 60 percent of students receive no aid – that is, they can afford educational costs that now total more than $40,000 per year. Perhaps 6 percent of households aged 45-54 could be expected to pay such amounts. Furthermore, most of those receiving financial aid are not the 'worthy poor,' but in fact come from the middle and upper-middle class families that still need help to meet these enormous costs. To be blunt: high tuition favours the wealthy more than high aid helps the needy.[2]

Third, in most private institutions each student now pays a different price for the same service. Below the most selective institutions the ratio of full payers drops precipitously. At the less selective colleges more than 90 percent of students now receive aid. Here is where federal student aid is most vital for maintaining inflated tuition levels and also sustaining institutions. Perhaps a third of their revenues probably come from federal grants and loans, funnelled through tuition.

Fourth, although differential pricing can muster powerful economic rationales, the student aid game is not a very fair game (McPherson and Schapiro 1998). The practices that are now dignified under the title, "enrolment management," are intended to optimise student quality while meeting revenue targets. With all the variables in the student aid mix, institutions can manipulate the packages they offer to their own advantage. *Caveat emptor* one might say – and some students not only do that, but consciously game the system. But one of the justifications for non-profit institutions is supposed to be *trust*: that is, the prohibition on the distribution of profit compensates for the asymmetry of information between seller (university) and buyer (student). This game has been sullied further through the widespread use of merit aid. Such institutional awards are essentially bribes to lure good students to less selective institutions. As such, they are a dubious use of institutional resources.

Fifth, the revenues generated through very high tuition have been used in the selective sector to fuel qualitative competition. Within limits, this is certainly a good thing; but this competition is now likened to an arms race (Winston 1999). Moreover, the competition for undergraduate students has decidedly exaggerated student consumerism. Most prosperous colleges now sport new libraries, but also new student centers and athletic centers. Colleges now compete as much on the basis of creature comforts for present consumption as on the potential for intellectual enhancement and future benefit.

2 The wealthiest institutions have compensated by offering extremely generous financial aid packages to lower income students. However, the number of such students who qualify for admission is quite small.

2. The For-Profit Sector

The proprietary sector of American higher education lies at the opposite extreme from the selective sector. Whereas the selective colleges predominantly serve wealthy students with excellent schooling, the modal student of proprietary colleges is from a non-wealthy family and most likely has not had a positive experience in school. This clientele seeks education chiefly in order to get a decent job. Most proprietary schools in the U.S. have been engaged in this kind of vocational or technical education, either for certificates, two-year associate's degrees, or bachelor's degrees. Another, more recent, clientele is working adults, who seek educational credentials for purposes of career enhancement. Traditional colleges and universities offer many programs of this type, but proprietary schools have found ways to compete effectively in this market. The pioneer was the University of Phoenix, founded in 1976, which now has the largest enrolment of any private university.

The for-profit sector appears to be the fastest growing segment of American higher education, and the fastest growing part of this sector has been the institutions owned by public corporations.[3] This is intentional. Whereas these corporations sell educational credentials in their urban classrooms, they are selling growth on Wall Street. The "Chronicle [of Higher Education] Index of [the stocks of] For-Profit Higher Education" appreciated by 500 percent from 2000 to 2004 (Chronicle of Higher Education Almanac Issue 2004; Ortmann 2002). The nine publicly traded companies in this index were valued at nearly 30 times earnings, which was close to twice the valuation of the overall market. This is really the *corporate sector* of higher education, which is different from the old proprietary sector. How did higher education become such a lucrative business? Two factors are primary – replication and student financial aid.

The University of Phoenix set the example. It created a business plan that worked for marketing higher education, and then showed it could be replicated. The result was spectacular growth. Elsewhere, vocational/technical programs rely quite heavily on public student financial aid. This entire sector has been transformed in the last ten years.

Proprietary vocational education has a long history, antedating the system of public education. Until recently, it could be described as ex-

3 Data on the for-profit sector is neither consistent nor reliable. The National Center for Education Statistics reports this sector growing from 430,199 students in 1999 to 450,084 in 2000 – an increase of 4.6% – to about 3% of total enrollments. The following account draws upon company financial reports and college guidebooks for the most current information.

ceedingly decentralised: thousands of independent trade schools offered mostly non-degree vocational courses. They competed to some extent with community colleges, but they largely compensated for the long-standing lack of effective public vocational education in the United States. Bryant and Stratton dates from 1854; Strayer Education was founded in 1892; DeVry in 1931. The latter two have become large corporations only in recent years. DeVry, for example, had expanded slowly over the years, but now the majority of its campuses date from 1997. Other corporate universities are of more recent vintage (Table 1). In the last decade there has been a marked consolidation of the industry. Growth has been achieved by replicating successful business plans, but also by acquiring and reshaping existing schools. What had been a fragmented industry is now dominated, at least for degree-granting programs, by corporations (Kinser 2004).

*Table 1: Companies in the 'Chronicle Index of For-Profit Education'**

Name	**Date IPO**	**Enrol-ment#**	**Cam-puses#**	**Sales ($ mil)**	**Profit Margin (%)**	**Market Capitalisa-tion ($ bil)**
Apollo Group	1994	200,052	71	1,700	19.8	12.73
Career Education	1998	83,200	78	1,500	10.8	3.14
Corinthian Colleges	1999	52,000	81	726	11.1	1.08
DeVry	1991	49,000	71	785	7.4	1.36
Education Manage-ment	1996	58,000	43	853	9.0	2.03
ITT Edu-cation Services	1995	38,000	77	572	11.1	1.49
Laureate Education	1993	130,000 **	12**	552	9.4	1.45
Strayer Education	1996	20,000	27	166	23.3	1.43
U. Phoe-nixOnline	2000	79,400	NA	NA	NA	1.26

**Data generated 8/24/04 from diverse corporate sources*

*** International campuses and enrolment*

Why have corporations only recently sought to invade education? In macro-economic terms there is a simple explanation. Education is the second largest industry in the country (after healthcare), comprising more than 7 percent of GDP. Seventy percent of these revenues are from public sources. Corporations have been drawn to education, not because they can build a better mousetrap or classroom, but in order to tap into this enormous reservoir of public funds.[4]

When the federal student aid system was put in place in 1972, students from proprietary schools were deemed eligible. This immediately created possibilities for abuse. Fraudulent trade schools enrolled students in dubious programs in order to pocket their student grants (now called Pell Grants). With the advent of the loan culture in the 1980s, more legitimate schools took advantage of this opportunity by enrolling ill-prepared students and signing them up for federal loans. Loan default rates skyrocketed, but it took Congress the entire decade to enact a remedy. Eventually, some safeguards were put in place: schools with high default rates were denied federal student aid; and no more than 85 percent (soon changed to 90 percent) of a school's revenues could come from federal aid programs. However, these abusive practices were petty thievery. Corporate universities grasped that they had far more to gain from retaining and graduating financially aided students than from fleecing the failures. An important threshold was passed in 1992, when loan limits were raised. This extended the profitable pricing point for these schools, making the enterprise more lucrative. The explosion of corporate higher education soon followed (see Table 1).

None of these institutions could operate on revenues from students themselves. The technical schools rely on federal and state student financial aid. A year's tuition in 2003 was pegged at $9000 – $11,000, which seems to be the maximum that can be derived from Pell Grants and student loans. Institutional aid can be adjusted to cover any shortfall. No 'consumer surplus' is left with their customers, although in this case that term refers to a student's eligibility for federal aid (Goldin and Rose 2003). In fact, an application for federal student aid (FAFSA) is required for admission to all these schools. The vocational or trade schools are most heavily dependent. Kaplan College, for example, derives more than eighty percent of its revenues from federal student aid. Corporate universities (degree-granting) tend to be less dependent. Their financial disclosures are not complete, and eligibility varies from campus to campus.

4 The political battles surrounding this development are most conspicuous in primary and secondary education, where they revolve around vouchers, charter schools, and corporate management of school systems.

Probably few obtain less than 50 percent of revenues from student aid. The bottom line: this business plan would not exist without federal student aid, particularly student loans.

The University of Phoenix (corporate name: Apollo Group), the poster child of the for-profit sector, grew from a different business plan. It caters to working adults (students had to be 23 or older) and awards 76 percent of degrees in business and management. The niche Phoenix fills is defined less by content and more by the manner of delivery (Sperling/Tucker 1997). Offering five-week modular courses to cohorts of students, Phoenix has minimised the opportunity costs as well as the effort required for earning its degrees. Other institutions carry this approach even further. For example, Cambridge College allows students to acquire a master's degree in education chiefly by attending a five-week summer course (Goldin 2003). When a credential is the goal, education can be streamlined.

Most working students at the University of Phoenix would fail to qualify for federal aid, but they are subsidised instead by employers, who pay tuition for the majority of students. Similarly, school boards subsidise their teachers for their five weeks at Cambridge – and give them a raise when they receive their degree.

Unlike nonprofits, for-profit universities replicate successful business plans by creating additional units, which are generally modest in size. Expansion is facilitated by the commodification of knowledge. The University of Phoenix has 'unbundled' the faculty role. Content is provided by professional course designers, who start with 'learning objectives' and then assemble materials that will fulfil those objectives. Everything must be pre-packaged and simplified so that the shifting corps of part-time teachers (actually, independent contractors) need only 'deliver' this material to students across the country. Standardised assessment allows the students subsequently to demonstrate that they have met the objectives (Farrell 2003; Newton 2005). In a true university a student identification card represents potential access to the world's treasury of knowledge, but in the for-profit sector a student's tuition purchases a measured 'product'.

The for-profit segment of the American market largely delivers what it promises – career-enhancing educational credentials. In this respect these institutions have developed and exploited distinctive segments of the market. At their best, they offer a credible service to clienteles that are not well served by traditional institutions. And they have some vigorous defenders of that role (Sperling and Tucker 1997; Ruch 2001). However, across the spectrum of corporate universities, they can also be guilty of commodifying, or trivialising, knowledge, and of pedalling credentials of dubious worth, all at partial public expense.[5] Of greater concern is that these practices are not confined to this particular market niche.

This issue leads back to growth, for it is growth that brings the greatest rewards to owners and managers. As they seek new markets in which to expand, the corporate universities increasingly intrude on the domain of traditional higher education. The fastest growing areas of for-profit enrolments are master's degree courses and then bachelor's degrees. Phoenix has lowered its age limit from 23 to 21, and it has announced a new unit that will cater to traditional aged (18 year old) students. All told, it plans to open 7 to 9 new campuses in 2005. The competitive advantage of corporate universities lies in opportunity costs (greater convenience; less work), in vocational focus on specific careers, and, with price escalation at public and private institutions, they can also be competitive in pricing.

The next frontier is online education. Phoenix has already spun off its online programs into a separate company. At least three of the other corporate universities (Strayer, Career Education, Laureate Education) boast online units. Indeed, their experience with the model of commodified knowledge may prove to be the most feasible approach to providing higher education online. Only one obstacle impedes their business plan – getting the government to pay for it. To date, virtual students do not qualify for federal financial aid. If the corporate universities have their way, however, this will be changed – and more dubious credentials will be produced at public expense.

This last situation reveals that the success of corporate universities has less to do with the markets than it does with politics. In this respect the stereotypes about for-profit higher education – both negative and positive – are off the mark. Defenders would have us believe that they are fighting to establish free enterprise – to provide consumer choice in professional training – in a closed, autarkic industry. Critics decry shoddy and superficial instructional programs that cheat students of a thorough education. However, this is an industry supported by third-party payers that do not police the product. Corporate universities go to great lengths to please their clientele through the ease of obtaining credentials. They are more likely to hoodwink the government than their

5 The responsibility for upholding educational standards in the United States falls to the regional accreditation bodies whose policies are by no means consistent (see Kinser 2004) The non-acceptance of course credits from for-profit colleges by traditional institutions has been an embarrassing and growing problem for many of these schools, which they have sought to remedy through congressional legislation (Hechinger 2005).

students. (Government investigations into financial aid irregularities seem to be endemic to the industry.) Their business plans depend on turning federal student aid into profitable growth. Hence, their fate depends more on the rules governing financial aid than it does on the marketplace. Much the same could also be said for the selective private sector.

3. Public Policy and the Private Sector

The conditions just described have important consequences for educational policy. The crucial issues surrounding federal student aid are embodied in the Higher Education Act, which requires periodic reauthorisation. These provisions were debated without resolution in 2004 and 2005. The most likely outcome will be the perpetuation of the existing system with slight concessions to the for-profit sector. These battles are also fought at the state level, where the privatising agenda has growing support.

One key to the success of the corporate sector has been its political clout.[6] The Career College Association, which represents for-profit colleges, has been recognised as one of the most effective lobbying groups in Washington. Unlike other higher education associations, it gives campaign funds directly to congressmen. The corporations make additional contributions. Thus, the committee writing the reauthorisation legislation has been extremely solicitous toward the for-profit sector (Burd 2004).

The details are too numerous to list. Nevertheless, a strong campaign has been mounted to scrap the 90 percent rule, so that a school could get *all* of its revenue from federal student aid. Another proposed rule change would make students in online courses eligible for aid. And, a more inclusive definition of 'institution of higher education' would make proprietary institutions eligible for various forms of federal institutional support. Such changes would subsidise and encourage the most dubious practices in the corporate sector, as well as those of independent entrepreneurs. Since many of the federal programs have fixed amounts of funds to disperse, such changes would siphon some funding away from traditional colleges and universities (American Council on Education 2004; Burd 2004).

6 John Sperling (2000), founder of the University of Phoenix, describes its history as a continual political struggle.

At the state level, the trend toward funding higher education through student aid has been gaining momentum. In several states suggestions have been voiced to convert all state support for higher education into student vouchers. Such funds might then be used at private or proprietary institutions, as well as public ones. Starting in 2005, state appropriations for public higher education in Colorado have been substantially converted to vouchers, which can be used in part at private institutions.[7] Policy discussions have been moving in that direction in other states as well. State support for student financial aid has been growing much faster than appropriations for public universities, as states seem to be endorsing the high-tuition/high-aid strategy. The most dramatic development has been the rapid rise of tuition at state universities. With budgets under pressure, states have basically allowed a greater share of the financial burden to be shifted to students, and their loans.

At the national level, there has been a fundamental disagreement about the central pillars of federal policy – grants and loans. It is heresy in Washington D.C. to suggest that there is any connection between student loans and tuition escalation. The American Council on Education even produced a study that claimed to prove such a disconnection. But legislators seem to know better, and they appear to be wary of both the cost and the likely impact of expanded borrowing. In terms of affordability, there is a crying need to raise the caps on subsidised loans, in keeping with the rising cost of college. The lower-priced public institutions have opposed higher loan limits largely because they would help wealthy, high-priced institutions and make spending differentials even larger. Nevertheless, some modest increase in loan limits seems inevitable (at least for the first two years, which have lower limits), since it is needed to sustain the present system. With respect to grants to low-income students, the need is obvious here as well. However, the prospects are for only small increases, spread over many years.

Federal financial aid policy has become hostage to the entrenched system of high-tuition/high-aid. Federal loans, in particular, have become a middle-class entitlement – and a situation in which greater supply will generate greater demand. Congress has good reason to be wary of the cost and the impact. However, such considerations preclude a financial aid policy that would target low-income students, who badly need additional aid to meet rising costs.

The longstanding argument of economists has been that greater efficiency in the finance of higher education could be achieved through a

7 In this case, Colorado students at private Colorado colleges would receive one-half of a voucher (c. $1,200), if they demonstrated financial need.

system of student financial aid that forced higher-income students to pay for more of their education and subsidised lower-income students. However, the consequences of such a system, which I have described, were unforeseen by policy analysts. On the other hand, entrepreneurs in the private sector anticipated the market forces created by these developments and took actions that benefited their companies. Moreover, they actively intervened in the political process to obtain even more favourable terms.

It is an axiom of marketing theory that firms can obtain advantages through product differentiation or through becoming the low-cost producer, but that mixed strategies will fail (Porter 1980). Something like this seems to be occurring through the marketisation of U.S. higher education. Using public funds to enlarge the purchasing power of students has produced great rewards for selective private colleges and universities, those able to differentiate qualitatively and thereby raise prices. Corporate universities have also been able to exploit this system by effectively competing for highly subsidised (hence, price insensitive) lower-income students and minimising opportunity costs. The loser in this kind of system has been public higher education, which has seen its subsidies siphoned off by increasing public support for the private sector. And this has compromised its ability to maintain a mixed strategy of reasonably low costs and reasonably high quality for the majority of traditional students.

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