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March 6 [Reality Check](#)

Public and Private: What's the Difference?

By [John V. Lombardi](#)

American colleges and universities, especially those that define themselves as public institutions because they are owned by states, carry on a continuous conversation with their faculty, students, trustees, legislators, alumni and friends about the distribution of benefits and costs between private and public entities. This conversation of many decades has gained considerable visibility lately in the form of a question: Are America's public universities becoming private? Although this question is surely worth the extended and often [highly perceptive analysis it receives](#), it sometimes helps to reconfigure the debate slightly to gain another perspective.

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It's not that anyone misses the central point — the public, tax supported percentage of public university budgets has been in decline for over a decade, even though the public investment in public higher education in total dollars continues to rise as more and more students enter postsecondary education. Rather, we often let our words define our view of the world when our words may not mean exactly what we take them to mean.

When we say public universities, we immediately bring a prototypical institution to mind, usually a substantial state flagship university, often from a Midwestern frame of reference, perhaps modeled after Iowa or Indiana or Wisconsin. When we say private university we also have a prototype in mind, perhaps Stanford, Yale or Duke. From these prototypes we develop a conversation about the convergence of public and private that leads us to worry about the loss of public purpose and investment in American higher education.

In the real world, most of public higher education takes place in state and community colleges that remain often 80 to 90 percent funded by public sources. For these institutions, the issue of public versus private is mostly irrelevant, and while they celebrate every small gift and modest grant, their primary focus is on their states and localities in the endless effort to sustain their operations. They are not at risk of becoming private.

Similarly, in the real world, the notion of private universities being somehow separate and independent from the obligations of public institutions by virtue of their funding sources is also not entirely accurate. Private universities, even those with exceptional endowments, exist to large extent on the public's account. Their endowments succeed by virtue of public tax exemptions. The gifts that build the endowment enjoy a public tax exemption. The property and campuses of these private universities enjoy a public tax exemption. The federal government provides extensive tax supported need based financial aid to private institutions, revenue that subsidizes those institutions' tuition and fees.

Private research universities, like their public counterparts, receive federal grants and contracts whose overhead pays some portion of the research costs, a direct taxpayer subsidy. Private universities in many states receive a per-student subsidy for every in-state student they enroll, again a public subsidy. And on occasion, private universities succeed in persuading their states to invest in economic development activities that support the academic objectives of the private institution (either by subsidizing research or helping defray the costs of facilities).

America's private institutions are a public trust. While they can evade many of the considerable bureaucratic and regulatory costs and obligations that public universities endure, they are nonetheless, publicly subsidized institutions with private governance.

This is not a bad thing. It is just how we do business in America.

However, higher education itself (public or private as defined by institutional governance) is both a public good and a private good for most of its participants. Students in particular may attend college for wisdom and knowledge, but primarily they attend college to acquire the skills and credentials needed for the good life. Publication after publication calculates and compares the differential lifetime earnings of college graduates compared to high school graduates, demonstrating over and over again the exceptionally high personal, private value that a college education confers. The private benefit justifies tuition and fees, the lost income for the years of college attendance, and the loan indebtedness incurred by students and their families. The data tell us that these private benefits more than sufficiently compensate for the costs parents and students assume, a conclusion the behavior of students and parents verifies.

What's the argument about then? If this is such a good deal, why do we have a controversy about the withdrawal of public support from public institutions? The controversy is less about the withdrawal of support than it is about the amount of subsidy individuals should receive as they acquire the private benefit of a college education. The consequence of a decline in the taxpayer subsidy of public higher education is an increase in the net cost of higher education to students. This increase in the net cost has many consequences, of course. As an example, for students whose families are at the margin of the American economic dream, any increase in the net cost may well put some forms of higher education, but usually not all forms, out of reach.

The changing emphasis away from the general benefit colleges and universities bring society to the particular benefit that they bring individuals encourages a tendency toward complex pricing. For selective institutions, as everyone knows, the sticker price of higher education (whether at a "public" or "private" institution) reflects what we could call a reference price. This is not the actual price charged every student; instead, a reference price marks the highest price a student should have to pay to acquire the private benefit of attending the institution. To arrive at the real price, the institution and the student engage in a private negotiation to set the net actual price based on an evaluation of what the institution can give the individual student and what the individual student can give the institution. This is not a public transaction that applies to all students; it is a private transaction that negotiates a private price between suppliers (the school) and individual consumers (the student).

Although this transactional model is well known to students and parents, it reflects a larger tendency in the American political and social environment to disaggregate a general public good (such as a university enterprise) into a collection of private goods (such as specific college degrees, different majors, or special programs) and then negotiate separate agreements and pricing mechanisms for the production and delivery of these private goods.

Many public and private universities find it easier to persuade legislators to buy particular fragments of the institution's purposes than it is to acquire general funding for the overall purpose of the institution. We can get an earmark for an honors program, for a remedial program for students from disadvantaged backgrounds, for enhancement of science and math, for the improvement of writing skills, or for a research building tied to a specific economic development objective long before we can get an increase in the general fund to support general education and research for all students and faculty.

This particularistic approach to higher education affects public and private institutions in other areas of funding as well. When either type of institution asks a donor for institutional support, more and more donors want very specific agreements about the exact use of their funds, even if the funds are placed in an endowment that will last forever. They do not give money for the improvement of education; they give funds for art history, for the development of specific scientific sub-disciplines, or for the recruitment of basketball players. These transactions, like the student transactions, are individual, private, and specific.

We can speculate on the many reasons why our society has drifted into seeing higher education as a retail consumer product (whether owned by the public or by a private nonprofit corporation). We can worry about the lack of faith in the institutions' integrity and consistency of purpose that encourages specific and detailed transactions rather than satisfaction with general commitments. We can feel outrage at the retreat from supporting higher education because it is good for the nation into a safe haven that sees higher education as a privately acquired ticket to prosperity. Yet every institution, public or private, finds itself accelerating these trends by its policies and practices.

I'm often reminded of an effort some years ago by a distinguished association of public and private research institutions to band together and refuse to participate in such retail negotiations, associated in this instance with federal earmarks. The academic leadership at that time employed remarkable eloquence in the defense of common approaches to peer reviewed grant making as being the best possible means of achieving the public good of merit based award of scientific and other educational support. After the meeting, the institutions appeared to increase their practice of securing as many earmarks in the federal budget as possible, employed high powered lobbyists to improve their chances, and kept score on how much money their local legislators helped them bring home.

All of us in American higher education, especially at the high end of America's 170 or so research institutions, are in the public and private sectors. We all seek public funds and private funds, we all deal with our students on the basis of selling a publicly subsidized product at individually negotiated prices, we all show great creativity in disaggregating our products and services into the smallest retail units needed for sale to our many private purchasers. We might prefer a different system, but this one, for all its faults, is the one we've helped invent and continue to refine.

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