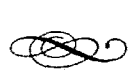

WHAT PROFITETH THE NOT-FOR-PROFIT UNIVERSITY?

Notes from the Dismal Science

by Sherman Folland

The biblical phrase I recall is "What profiteth a man if he gain the whole world but lose his own soul." At times I think that the "soul" of the university is the pursuit of truth, art, and knowledge. Yet, at other times I think our main work is to pass the best of our knowledge and culture on to the next generation; 'we touch the future, we teach.' Perhaps it is best to say that *both* are the soul of a university.

All of us faculty and staff, of course, recognize that there is a business side to any university, and we are aware that the know-how of the corporate world is often valuable. It makes sense that administrators have sought out this corporate know-how hungrily. I believe though that the search is often accompanied by an incomplete understanding of the corporate world and its inherent differences from the not-for-profit world. I first began to think this many years ago when I started to study American hospitals, most of which are not-for-profit. The recurring controversies in the *Chronicle of Higher Education* suggest that many academics share this concern over the growing corporatism of higher education.

I have read many articles on not-for-profits, which commonly argue that not-for-profits perform best in situations where 1) both private markets and government leave gaps in

services valued by citizens, or 2) where people place a high premium on trust in the service provider. These generate the reasons that we citizens encourage not-for-profits by giving them big tax breaks—no taxes.

Government provides education, defense, judicial structures and much more and private enterprise provides the rest. We Americans often argue about exactly where to draw the line between government and private enterprise, but few people who are both public-spirited and well-informed would want to do away with either of them. These two, however, leave many gaps to be filled by not-for-profits so that now over five percent of the nation's income is derived from not-for-profits. Opera lovers, blood transfusion recipients, hospital patients and university students often prefer not-for-profit enterprises; the not-for-profits appear to place a special emphasis on excellence at least in the eyes of consumers.

"Consumers" by the way is the generic economic-ese for all people who use a good or service, even professional services where patients or students are provided what professionals and teachers see as best for them as opposed sometimes to what they want. To treat university students as "customers" would be viewed by most economics profs, I think, as just another example of corporatism.

Where quality is the main thing, the not-for-profit seems to shine. Wherever corners are vulnerable to being cut, people will look carefully at the motives of the man selling the widgets. When I want to donate to a people in a far-off country, I prefer a not-for-profit relief agency like Oxfam, wouldn't you, too? Who would send money for this purpose to a for profit firm (assuming they were to offer the service). For example, who would send foreign aid donations through a Pete and Mildred Peterson's Relief Company, Inc.? a Free Lotto Relief for the Poor, Inc? Enron?

The trust that people have in not-for-profit universities, both the public versions and the private, is being rapidly squandered across the country through the misinformed pandering of some administrators to corporatism. By going after

more and more lucrative students in order to gain more and more university revenue, universities will eventually erode what trust in them remains. My guess is that this will at the same time erode those reasons that originally motivated states and cities to grant tax-breaks in the first place. Doesn't this possibility make sense? If universities fully succeed in adopting corporate practices then why are they any longer to be special? And, why won't the public eventually catch on, deleting the tax breaks?

Economists understand the argument I am making, yet, many people who have never studied the subject seem convinced that corporatism is "hard headed economics." It is actually bone headed economics. Consider a couple of examples where the only trick of the analysis is to mentally switch your point of view-the profit-maximizing point of view to the not-for-profit goal oriented point of view.

Something we do at Oakland University, admittedly a strategy choice common to many universities, seems to me to be at odds with the natural role of a not-for-profit university. In contrast to the profit maximizing firm, public universities are designed to serve the truth and the intellectual well-being of their students. When population change and a gradual "dumbing down" of high school curricula changes the pool of students, the not-for-profit university should logically encourage local two-year institutions as partners to share the main part of this new burden and to emphasize for itself the provision of the high quality four year experience. But, ostensibly not-for-profit universities instead often choose to compete with two-year colleges not as partners but as economic threats. Don't choices like this reflect in large part a misconception of the nature of the not-for-profit rationale?

Another example familiar to us as well as many universities throughout the country is the handling of the expanding opportunities for distant students. When the choice a university faces involves a tradeoff between serving our chosen target area students versus serving students in a distant country, the result depends on our conception of our not-for-profit reason

for existence. Drawing foreign students to our campus supports our local constituency by providing a richer campus life, while drawing resources out of the university into foreign countries usually makes sense only as a means to maximize profits through the lucrative rates of reimbursement. With such a choice, adopting the goals and attitudes of the corporate world, throws out the baby and maximizes the bathwater.

Reading the *Chronicle,* one meets many of the ideas I have expressed above, but the main idea is that many university administrations across the country, in the attempt to become more business-like, have been confusing the means with the ends. Corporate skills and habits provide hard-headed realism and practical know-how, but they aren't the reason we are here. In the jargon of economics, profit helps us to meet our constraints, but it isn't itself our goal. In contrast, the pursuit of truth, knowledge, art, and the delivery of our society's accumulated knowledge and culture to our students make sense as ends in themselves, and these, it seems to me, are the proper goals for the not-for-profit university.