

THE FALL OF TAX-FUNDED UNIVERSITIES AND RISE OF WORLD-CLASS ALTERNATIVES

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I. INTRODUCTION

Storms are bearing down on higher education. One – a cyclone of Internet-enabled learning innovations – is already unsettling lecture-based classes. Far bigger threats are coming as a confluence of disruptive technologies grows in strength. This second front will break and scatter the tuition, endowment, and taxpayer subsidy base that now funds universities in developed countries.

This paper maps causes of the coming crisis in higher education. It reviews opportunities for private learning ventures to mix proven ingredients in new ways to deliver world-class primary, secondary, and tertiary learning opportunities to all. Finally, it suggests a “start small” path for piloting such alternatives, with autocatalytic rewards for those who join and help it spread.

II. BACKGROUND

Unease is spreading in academia. Public subsidies are declining as bankruptcy-bound national and state-level governments face the need to retrench. Growing numbers of freshmen need remedial instruction after their K-12 experience in public schools. Tiers of bureaucratic deadwood weigh on increasingly demoralized teaching staffs. Soaring tuition costs and student loan burdens are crushing household budgets as economies stall out in developed countries. Students steeped in social networks and entertainment-rich media skip or tune out in class. In an era of torrential change, moreover, what students do retain – perhaps 20 to 30 percent – is likely to be outdated within a year or two of graduation.

A. The first storm: disruptive learning innovations

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Universities struggling with the above challenges will soon be engulfed as well in a cyclone of disruptive learning innovations. They will have to contend with these intensifying forces:

- *On-demand learning.* MIT, Stanford, Yale and dozens of their peers now offer a total of many thousands of hours of free lessons online for undergraduate and graduate level courses. These are available on an “anytime, anywhere” basis to students and jobseekers around the world.
- *Online tutors and teaching assistants.* Falling bandwidth costs and the emergence of Skype are enabling personalized, 1:1 tutoring (often by highly-skilled, low-cost entrepreneurs in developing countries) at all levels of education.
- *Growth of peer-learning networks.* Facebook, Twitter, and Google+ are connecting almost a billion people in online communities of interest and practice. These have become a new source of learning and knowledge exchange within trust networks. Peer-produced reference materials, notably Wikipedia and a growing number of “open access” scientific journals, are challenging the primacy of once-authoritative publications.
- *New credentialing systems.* Open source pioneers such as Mozilla (creator of the Firefox browser) are introducing “open badging” as a way for online learners and peer learning groups to demonstrate mastery in areas of knowledge. Brainbench.com has disrupted many high cost diploma and certification services by opening a mass market for low-cost yet reliable skills certification. In recent months, MIT has launched a credential-granting process for those who successfully complete free Open Courseware offerings.

Many universities have done little to prepare for the approaching vortex, despite a mission to extend frontiers of human knowledge. Taxpayer-funded universities, especially, have been slow to prepare affordable and creative responses. Their dependence on politically driven budget processes – and a lack of internal incentives – has held back their adoption of breakthroughs able to radically lower costs.

B: The second storm: transforming economies and collapsing revenues

Yet universities face a far greater challenge than the storm threatening their current top-heavy system of delivering highly perishable knowledge via classrooms. A typhoon –

drawing upon once-unimagined technologies, global sourcing of talent, and a swelling volunteer cohort working to build a global “knowledge Commons” – will utterly transform economies, and dislodge many incumbent universities from their foundations.

Millions of highly compensated jobs in developed countries have already vanished in the first waves of this typhoon. Tens of millions more are at risk, endangering once-secure career paths for college graduates in the US and other affluent societies. Among the forces ripping through the labor markets of developed economies are:

- Technologies that enable firms to radically downsize workforces through automation, replacing high-cost service sector as well as factory employees;
- A growing downdraft in salaries and wages for those employed in service and manufacturing industries, in response to the entry of China and India in the global market;
- Burgeoning freelance marketplaces, in which eBay-style reputation ratings and “reverse auction” systems make it possible to find and hire top talent at tenth or less of former costs;
- Dwindling public sector career paths, as governments shed jobs at national, state, and local levels; and
- Emerging support in cell phones for exchange via alternative currencies and multiparty bartering.

Joblessness in developed economies will soar as these trends gather strength. And it is destined to rise for another reason. Volunteer cohorts are growing in number and improving their reputation-building rewards for “social production.” Millions of unemployed and underemployed people in developed countries are volunteering time to enrich a free and open global knowledge commons. They are doing so for intrinsic rewards as well as the esteem of their peers, often valuing such work more than that done for financial compensation. The result is a trend to withdraw from market exchange. As Gregory J. Rader of the “On The Spiral” describes it:

“While the Networked Creator finds increasing value in non-market pursuits, he also increasingly experiences less need for money. Increasing non-market production also means less need for market consumption... A recent essay by Timothy Lee describes this as “The Great Ephemeralization.” The related minimalist and digital nomad movements serve as obvious examples of significant demographics deprioritizing income earning in favor of non-monetary forms of value.”

As competitors to Wikipedia, Linux, Youtube, and internet news channels can attest, volunteer-based peer ventures are eroding the earnings of corporations that once seemed unbeatable in their markets. Open source and peer production movements are now taking aim at manufacturing corporations as well as service industries, as affordable 3D printers open the prospect of “do it yourself” production and microfactories. This will lead to further job-shedding in today’s corporations as households become more self-sufficient.

These forces are blowing away a key reason to attend universities. Young people from poor and middle class households are questioning the need to pursue expensive degrees that add little value when trying to find work. Tuition revenues will plunge as doubts spread over the value of degrees. As overall joblessness grows, alumni with once-secure careers will be at risk as well. Their giving will fall in consequence. Endowment earnings can be expected to follow suit. As unemployment reduces consumer spending in developed economies, the value of stocks in many university endowment funds will plunge.

In early stages of this unfolding crisis, public universities may appear to be in a somewhat safer position. Tax-funded learning institutions often have influential allies in state and national governments. They will undoubtedly argue for higher levels of taxpayer support as tuition revenues and alumni giving drop.

Yet tax-funded universities are even more fragile than their market-based counterparts, given their greater reliance upon government. In a time of structural unemployment and rising threats to popular entitlement programs, any move to continue or expand transfer payments from struggling households to the well-off will intensify public anger, especially in cases when disruptive learning solutions are outperforming expensive state education systems. (Subsidies for universities amount to a net transfer of wealth from the families of low-income taxpayers to the families of the middle and upper class, whose children enjoy higher rates of acceptance.) Public universities are prime prospects for the chopping block in response to an increasingly populist and polarized electorate.

The endgame for tax-funded universities will start when the huge overhang of unfunded liabilities at state and national levels crashes down. The typhoon dismantling the tax base will trigger its collapse. Lenders that now finance tens of trillions of dollars in public and private debt will lose confidence in a moribund economy as technologies enable people to become more self-sufficient, free and open resources undo commercial rivals, and relationships formed through social networks expand the scope and reach of voluntary action.

A final stage of destruction will likely occur through massive “quantitative easing” – the firehosing of fiat currencies into entitlement programs, public education and other

insatiable institutions – in a desperate effort to avert their fall. Yet this response to the typhoon is likely to bring about a comprehensive collapse. Inflation will devastate savings and blatant favoritism in bailouts will shred any remnants of trust by private capital in the fairness of public institutions. The evaporation of public trust will end investments by risk-takers, and ensure a further downward spiral in what remains at that stage of (taxable) productive endeavors. In the end, the ivory towers of public universities will crash.

As trust fades in the quality of governance in once pre-eminent economies, a different process will be advancing in other parts of the world. The loss of trust in governments of overleveraged developed countries opens an opportunity for other jurisdictions to outcompete the fading powers in quality of governance and work opportunities. Already, city states such as Singapore and Hong Kong are setting international standards for trust in and transparency of business climates. They are inspiring other countries to establish free cities and “charter cities” – areas for policy and institutional renewal.

These can become allies in a global initiative to extend education for all on market-based lines, including expansion of peer learning networks and a restructuring of entrepreneurial universities.

III. OPPORTUNITY

Let us jump forward to February of 2016. Universities are in crisis. Blogs on higher education are filled with budget battles, downsizing of faculties and student enrollments, and cuts in research programs. Yet one also finds signs of a hinge point turning in favor of entrepreneurial universities. Here are imagined snippets from the Chronicles of Education, assembled in three categories.

A. RESISTANCE TO TAX-FUNDED UNIVERSITIES

YOUTUBE CONTEST SEEKS TO TRANSFORM “DEAD AS HELL” CLASSES INTO GOLD

A coalition of education reform groups and technology firms this week invited college and high school students across the country to record, using their phones, unsatisfying lectures – and to transform the most boring of them into effective online learning resources. A newly launched “Gold from Garbage” YouTube channel, sponsored and supported by RateMyProfessor.com, seeks to attract hundreds of thousands of students each month to select the most dismal classes.

Each student in the five classes voted as most dull will receive a condolence prize of \$10. The second round of prizes will go to students around the world who research the topics ostensibly covered in the least engaging lectures, and prepare brief videos or animations that impart the knowledge in a stimulating and accurate way. The top rated will earn their creators a prize of \$200 and inclusion in the online curriculum of a newly launched online learning... *(continued)*

ROSETTA STONE, GLOBAL TUTORING FIRMS TAKE AIM AT UNIVERSITY LANGUAGE AND REMEDIAL PROGRAMS

To the alarm of college faculties and applause of state taxpayer groups, the “Doing More for Less” consortium last week lobbed a new challenge at publicly funded learning institutions. Rosetta Stone and a group of online tutoring services, including India’s NTTI, extended a standing offer to deliver language training and remedial writing instruction solutions for students in financially-pressed universities, with guarantees of higher proficiency and a 50 percent savings relative to existing in-house programs. The offer drew an immediate outcry from ... *(continued)*

FREELANCE ARMY GATHERS AS THINK TANKS PROBE HIGHER EDUCATION SPENDING

The Cato Institute, Reason Foundation, and the American Enterprise Institute today announced that more than 20,000 freelancers around the world had responded to 100 openings for their newly created Online Research Fellowships. “More than a million freelancers and jobseekers worldwide are now seeking research projects in online free markets for telework,” said a Reason Foundation spokesperson. “But we were stunned by the scale and quality of the response.” The think tanks, operating from free market perspectives, have earned respect for their policy research as the economic and fiscal crises have deepened. Their joint initiative was formed in response to growing taxpayer concerns over spending practices and performance measures used by the most costly public universities in the country. The selected Fellows will each receive compensation of \$500 for online research and analysis to be conducted over the next four months, with their deliverables to be reviewed and cross-checked by leading scholars. Results will be published by the end of the year, with the aim of... *(continued)*

UNIVERSITY STUDENTS WIN SOCIAL IMPACT BOND IN UK

The Young Foundation yesterday honored a “peer learning” venture formed by Cambridge University students for their measurable success in boosting English language reading and writing skills in ESL households. The Foundation, which pioneered Social Impact Bonds as a way to encourage cost-saving innovations in public service delivery, awarded the prize upon verifying a 40% English fluency gain in 500 randomly-chosen participating households, relative to a comparable control group of households in established ESL programs funded by Lambeth Borough Council. An apparent key to the literacy gains came from use of Skype-based language practice lessons, connecting university volunteers with the households, and an innovative language game for young children, developed by Pakistani software developer whose \$300 bid and 9.5 rating in Freelancer.com persuaded the Cambridge group to... (continued)

IPO SUCCESSES ENRICH THIEL DROPOUT PRIZE

Five years after Paypal cofounder and Facebook investor Peter Thiel encouraged nascent entrepreneurs to drop out of college, the first wave of Thiel Fellows are reaping gains from his advice. A controversial young education reform champion has netted more than \$50 million from an IPO for a highly controversial for-profit charter school venture, in which students in at-risk communities are vested as co-owners of their schools and their associated virtual learning ventures, with their share of profits rising in step with skills gains of their peers. In followup to the IPO’s success, the venture’s founder announced yesterday that he will make a personal \$1 million contribution to the Thiel Prize, enabling another four Fellowships to be offered to promising ... (continued)

STUDENT STRIKE LOOMS OVER LOAN REPAYMENT BURDENS

Angry students swarmed a meeting of MegaStateU trustees this week over a deadlocked proposal that would make “human capital investments” an alternative to crushing loan burdens. According to a spokesperson for one of the protesting groups, the impasse arose over the university’s refusal to accept contingent repayment alternatives, in which students would offer four percent of their earnings over a 10-year period, a model used to fund higher education by CareerConcepts in Europe and Lumni in Latin America. A related bone of contention has been the lack of University interest in “flexi wage,” a Singapore innovation that links the salaries of administrators and faculty to the rate of growth or decline in the private economy over the preceding year. “MSU administration and teaching staff have absolutely *no* incentive to keep the kind of teaching here updated to help us land good jobs in... (continued)

LECTURE TRANSCRIPTS ATTRACT CROWDSOURCED CROSS-CHECKING

As joblessness spreads, frustrated students and unemployed graduates are mounting a campaign to improve the quality of college education by tapping the “wisdom of the crowd” and rigorously fact-checking lectures. The campaign originated when students at MSU used cell phones to record a tenured professor’s account of the Boston Tea Party and Shay’s Rebellion, and posted the file for crowdsourced transcription and confirmation of assertions. The findings of multiple reviewers, posted on SocialCompare.com, “blew holes in the claimed facts – and raised questions about the professional competency – of ...

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EMPLOYER SURVEY: “BRAINBENCH CERTIFICATIONS COUNT MORE THAN MOST DIPLOMAS”

The Chamber of Commerce kindled new debate over higher education budgets yesterday, with release of a survey on its members’ hiring patterns in 200 categories of technology-related jobs. It found a majority of member firms prefer to hire individuals holding recent Brainbench.com certifications in the most sought-after skills, in contrast to applicants with four-year degrees. Brainbench’s tests, which average \$35 in cost and have been taken online by more than a million jobseekers, grant proficiency certificates in more than 1000 fields. (Employers interviewing job applicants receive free “spot check” questions when meeting with Brainbench-certified prospects). “We find that the Brainbench certified applicants show a higher level of technical knowledge in ... *(continued)*

B. Revitalize

FUNDRAISING CAMPAIGN OFFERS LIFELONG LEARNING OPTION FOR ALUMS

Increasingly hard-pressed private colleges and universities have begun to offer an incentive to encourage higher levels of giving by alumni. For those making unrestricted gifts of \$500 or more, Hillsdale College and Yorktown University are now providing annual access to a special streaming lecture and conversation, including live two-way interaction, with individual professors chosen by the donors. “This gives us a way to have regular access to updated insights from our favorite teachers,” said recent Yorktown graduate ... *(continued)*

ALUMNI GROUPS PLEDGE TIME DONATIONS

“We are the one percent(ers),” says the head of an alumni group for a Hanseatic University, a private university struggling to offset fiscal problems caused by lower enrollment and a shrinking endowment. The one percent he refers to is a new pledge by many graduates to contribute one percent of their time to help the university, if they are unable to donate funds. The range of skills being contributed include Skype interviews with prospective student applicants, assistance in graphic design, translations of outreach materials to attract foreign students, and... *(continued)*

PROFESSORS PLANNING A “RESULTS-DRIVEN” UNIVERSITY

A for-profit learning venture will be launched next month by more than 60 adjunct professors, who have decided to leave their untenured and increasingly precarious positions to offer skills valued in businesses adopting “results only work environments.” In the spirit of ROWE, the faculty of “Results for U” is tying its contingent compensation to demonstrated levels of student proficiency in specified skills. A founder noted that payment, on achieving these results, will be via an agreed small percentage of the learner’s subsequent earnings, or a specified amount of his or her time that can be auctioned by the teachers in reputation-based online telework markets. *(continued)*

ACADEMY EXPANDS SUCCESS-BASED PERSONAL LEARNING CONTRACTS

An Uplift Academy spinoff has completed a pilot of personal learning contracts in Sacramento, California, one of the country’s most hard-struck communities in terms of unemployment and housing foreclosures. The Uplift Academy Partnership has provided a smorgasbord of alternatives to 100 households with unemployed workers. After designing custom “personal learning networks” in response to each household’s reskilling and educational aspirations, it delivers on-demand learning, work-study projects, and “open badge” certifications to help members enter into new actual and virtual markets. A popular track for households in the initial 18 month trial consisted of acquiring skills to lower living costs, through microfarming, alternative energy solutions, shared use of 3D printers, and wellness/health practices. In return, participating households agreed to share a portion of earnings from success in finding employment or launching

businesses in related fields, in budget savings from reduced food, energy or other household costs, and/or an agreed share of future home value gains through “co-ownership mortgages.” The agreement specifies that municipally owned properties – at mutually agreed locations – may be transferred in the future as a land grant endowment to the Uplift Academy Partnership. In this case, participating households will be released from any contingent repayment obligations, while the Academy will continue to provide its personalized learning support to make the community a more attractive place in which to live and work... *(continued)*

C. RESTRUCTURE (by going global)

ENTREPRENEURIAL UNIVERSITIES MOVE TO FILL GAPS AS FOREIGN AID PLUNGES

Growing numbers of universities and student groups, in response to the recently launched Openworld Game (<http://is.gd/openworldgame>), are entering into planning and development partnerships with grassroots allies in impoverished regions. Participants focus on designing “quickstart” opportunities for innovative and entrepreneurially-led eLearning, eHealthcare, and eGovernment ventures of value to local private and public sector allies. Class projects by student teams – inspired by an earlier \$25 billion private free zone precedent in South Korea (<http://is.gd/songdo>) – compete to offer the most attractive projects. In turn, communities propose land grant sites for phased development, on a reward-sharing basis, with university partners that they deem best able to bring opportunities to fruition. The joint ventures attract risk-taking investors, chosen by competitive open tender. Revenues from concession agreements with the chosen investors help to fund national and global distance learning and other projects of the partnering university. Residents of communities that convey the sites, in turn, receive lifelong free access for all residents to virtual learning resources from their US educational partners, and shares in the lease revenue earnings... *(continued)*

TECHNOLOGY VISAS BOOST REVENUE FOR CHARTER CITIES

A downward spiral in the fortunes of North American and European universities seems likely to get an uplift from an unlikely source: emerging “Charter Cities” in Central America and Caribbean Basin. Inspired by the success of Dubai and United Arab Emirates, where work permits and visa fees deliver more than \$1 billion to public revenues each year, several countries have adopted “Technology

Visas” that are turning once-idle areas into magnets for immigration by technically skilled workers ineligible for the US H-1 visa program. Half of the Technology Visa revenue each year flows into scholarship funds to widen educational opportunities for residents of the sponsoring countries. At the university and graduate level, these voucher funds are becoming a major factor in enabling citizens to access the distance learning and traditional degree-granting programs of partnering US, Canadian, and Spanish universities ... *(continued)*

GRAMEEN TEAMS WITH SINGAPORE TO LAUNCH “LEARNING FOR ALL” INITIATIVE

Building on the success of microfinance in lifting more than 100 million entrepreneurs out of poverty, the Grameen Bank has just announced a move to extend the microfinance revolution to education. It is now partnering with Singapore’s global initiative to spread free economic zones – “little Singapores” – on a success-sharing basis to endow grassroots microsolarship funds. These will cover costs of Internet and cell phone access to resources of global distance learning networks and universities. The rising land values and visa revenues from greenfield sites to be developed as “World Cities” will fund eLearning and online certification opportunities at no cost to people around the world. Privately-funded development of the new cities will be undertaken on a build-operate-transfer concession basis, ensuring that assets are conveyed to the education and health.... *(continued)*

IV. CONCLUSION

An era of transformative changes in higher education, and education at all levels, is approaching. Many fields will be cleared for emergence of a better system as the approaching storms pass through. Virtual tools – combined with student energies and affordable freelance talent – will make it possible to prepare pilot projects for these alternatives at impressive speed.

Much work will need to be done to ensure that they grow. Establishing competitions and multi-level reward systems for early participants can provide a basis from which successful pilots can scale and spread. Once these are in place, world-class learning alternatives will come within reach of all on the planet.