

1 Introduction

Challenges, Solutions, and Themes

Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof.

—John Kenneth Galbraith

Challenges

The belief that higher education should be funded by society dates back at least to the fourth century BCE, when Plato's Academy offered free admission to selected students—a philosophy that prevailed throughout most of history. Today we face a different and challenging environment, with collapsing government budgets and rising tuition revenues. The emphasis of *Public No More: A New Path to Excellence for America's Public Universities* is that the long-standing dependence on state subsidies that facilitated low tuition and easy student access to public higher education is unsustainable. We view the recent cuts in public university funding as permanent and their consequences, both for higher education and for society, as profound. Public universities can either recognize and confront major strategic challenges or face prolonged financial stress, deteriorating quality, and eventual competitive decline.

To retain both access and quality, many public university systems are dramatically increasing tuition and fees to high-income students while providing an internal subsidy to low-income students. In effect, external market forces and internal reallocations are replacing state financial support. The inevitable outcome of these forces is that the traditional high-subsidy–low-tuition model, which helped to create the premier system of higher education in the world, is on a steady path toward extinction. Its emerging replacement will feature high tuition for some, high aid for others, and substantially reduced

public support. The consequences will be less discretion in subsidizing inefficient programs, regardless of their appeal to basic notions of academic taste and fairness.

While public financial support, along with the award of an exclusive franchise, has led to a level of academic research, open inquiry, and scientific investigation that is the envy of the world, it has also acted to isolate public universities from competition and has engendered a sense of privilege and entitlement. Greater reliance on tuition revenue, better-informed and more selective students, rapidly emerging national and international competition, and stunning new technologies present a different reality. The question is not whether public universities will adjust to reflect this new reality—because they must; rather, it is whether they can react quickly, successfully, and sensibly enough to sustain their competitive position as premier providers of instruction and research.

One of the major impacts of increased market competition is to drive the prices of products of given quality toward average cost, thereby reducing operating margins and forcing a relentless quest for operational efficiency. Competition is a healthy force; countries with open markets, well-developed institutions for the protection of private property, and transparent legal processes have the most innovative and dynamic organizations. Vibrant economies provide the highest levels of sustainable economic growth and productivity. However, there are also the apparent downsides to enhanced competition. In particular, individuals and organizations that are threatened and displaced by existing or new rivals will not welcome competitive pressure; they will typically resist the implications of competition both politically and economically. For these reasons, the critical choice confronting public universities is whether to compete aggressively in the new environment or to retrench and do everything possible to resist competition and to avoid making needed changes to practices and processes.

Some public university leaders deny the implications of this new funding reality and continue aggressive lobbying of their state legislatures to return to the high-subsidy model. Often, they feel empowered in this by a conservative faculty and staff governance process that promotes strong resistance to change. Although some level of advocacy is important and can be effective, demands on state and federal funds and the lack of appetite for additional taxation offer little hope that future needs can be funded through traditional public sources. Excessive lobbying, accompanied by denial of a permanent

problem, has the potential of distracting university leaders from refocusing on needed strategic adjustments. More important, attempts to block impending competitive forces by resistance and delaying actions are self-defeating.

As increases in tuition revenue replace state subsidies as the main funding source for public universities, the vitality of the research enterprise is threatened. In the traditional funding model, a significant fraction of research activity was supported by block grants from state governments, which financed both reductions in faculty teaching loads and a significant portion of the required research infrastructure. These grants were also used to sustain an extensive and nontransparent system of internal cross-subsidies. With this support structure, the subsidy helped to develop the defining features of distinctive public universities, which are based on the concept that teaching and research are complementary and that research-intensive universities provide a challenging, high-quality learning environment. To continue to fund their research mission, public universities have implemented less expensive ways to deliver the curriculum, including increased use of adjunct and part-time faculty, compressed pay, and increased class sizes. However, these cost-saving instructional initiatives threaten to erode educational quality and value and thereby to precipitate a negative reaction from students who become less willing to pay if they perceive a reduction in value. If dissatisfied students choose to go elsewhere, efforts to spread resources and sustain cross-subsidies by reducing quality can be self-defeating.

Solutions

Significant challenges arise as universities attempt to sustain the long-standing goal of excellence in instruction and research in the face of declining public subsidies. What is necessary are new and effective positioning strategies that focus more narrowly on academic programs that can distinguish a university relative to existing and emerging rivals. Each public university must identify a unique strategy and invest in programs that align with it, and at the same time decrease resource allocations to programs that do not align. The obvious but rarely acknowledged implication is that the scope of academic programs will have to be reduced. Confronting this issue reveals the tension between the benefits associated with greater differentiation of each institution and the desire to offer broad products that are attractive to a large student base.

Ultimately, public universities cannot be all things to all people. Programs that offer neither distinctive features nor a coherent financial model and those not aligned with the intent or viability of the university face being downsized or eliminated. The essence of an effective strategy is that it provides a logically consistent framework for making challenging decisions in an uncertain environment. To protect and enhance the university's unique (distinctive) market position, top leadership must define a vision and then find the courage to enact these difficult choices.

Moving from subsidy to self-reliance presents significant challenges for public research universities. As increased revenue comes from tuition-paying students rather than from public support, students will seek out academic and professional programs that help them succeed in both life and the workplace, providing the return they expect on their investment in education. Some will not be satisfied with the assertion that what they need is a politically adjudicated liberal education that prepares them for life's intellectual challenges. Nor will they be especially supportive of the notion that their tuition should be diverted to support research and exclusive high-cost programs at the expense of their own instruction.

The traditional approach of setting a base tuition for resident undergraduates that applies generally to all programs and majors leads to various distortions, particularly because it ignores substantial differences in program costs as well as differences in student willingness to pay. A policy of increased tuition-setting discretion can recognize cost and student demand differences, hopefully in the context of a tuition structure that leads to minimal departures from efficiency standards. Education quality rises as student preparedness improves and as the resources devoted to educational quality increase. Like tuition, entry standards and the funds spent on programs are key decisions that must be made in the context of environmental opportunities and the university's aligned positioning strategy.

As shown in the Table 1.1, the new reality facing public universities requires many changes in the practices and processes used in the traditional structure. It is not clear that the required transformation is feasible for many of the institutions that constitute the current broad spectrum of public higher education. Moreover, a basic question is whether the transformation, even if possible, will be beneficial for society. The changes we envision will require a major shift in culture on the part of faculty and administration. While the main drivers of change are the permanent decline in the level of real public

TABLE 1.1 Traditional structure versus new reality

<i>Traditional structure</i>	<i>New reality</i>
Regulated tuitions	Increased tuition discretion
Low tuition–high subsidy	High tuition–low subsidy–high financial aid
Fixed entry requirements	Flexible entry requirements
Unrestricted subsidy use	Restricted subsidy use
Spending of revenues received	Increased operational efficiencies
Limited external accountability	Increased external accountability
“Hourglass” governance structure	Top-down governance emphasis
“All things to all people”	More focused strategic vision
Opaque financial reporting	Financial transparency
Innumerable internal cross-subsidies	Fewer internal cross-subsidies

support per student and the unprecedented emergence of new competitors, the principle inhibitors of change are entrenched ideologies, resistant internal cultures, and budgeting and resource-allocation processes that are predicated on the once, but no longer, predictable receipt of public support.

The transformation from subsidization to greater self-sufficiency necessitates different strategic and operational models from those that have dominated at public universities throughout their history. The repositioning and re-evaluating of academic program scope recognize that greater importance must be given to societal needs and student demands. In the process, programs and services that have low demand, generate little revenues, or are too costly must be identified for the possibility of downsizing or elimination. The new model encourages productivity enhancement, entrepreneurship, and greater attention to relentless competitive forces.

Themes

We summarize a number of key themes that underlie the major tenets of this book:

1. Replacing state support with tuition revenue will require more emphasis on the efficient allocation of resources to achieve as much as possible with limited funds. The traditional appeal of fairness, where

low-tuition access is subsidized, is challenged by an economic efficiency argument.

2. The choice between greater efficiency and enhanced fairness (equity) seems to be the critical issue, but in fact there is only one option. Unless public universities become more efficient, they will not survive in their current form.
3. With a decline in direct state support, internal cross-subsidies that support high-cost, limited-access programs at the expense of low-cost, broader-access programs are going to be difficult to maintain. More specialization across public universities provides one answer, and public universities will have to make choices that limit program scope.
4. Increased market competition both reduces overall demand and increases demand elasticity. This will put pressure on the traditional positioning of public research universities. Increases in tuition elasticity will limit the ability to raise tuition, and reductions in demand will increase unit fixed cost.
5. Impediments to change are embedded in culture and traditional ways of doing things. The shared-governance structure of public universities is inherently conservative, internally focused, and discipline based. Needed changes cannot be implemented easily by a central administration that is directed by governing boards to achieve greater access and constrained to recognize faculty rights.
6. There are numerous examples in public universities of independent programs that must adhere to market forces and seek efficiency and financial viability. Most of these units are “enterprises” that stand apart from the academic core, but there are also independent academic programs, like those in public business schools and other entrepreneurial units, that have attained financial viability without sacrificing quality and research productivity. These “public-no-more” programs provide one plausible forward-looking template.