

Appendix A

Internal and External Environmental Scan

The future direction of the University of Minnesota is as much guided by its discoveries in the areas of research, teaching, and outreach as it is by societal changes and innovation to which it must respond. Especially noteworthy are the following trends. These are followed by President Yudof's analysis of the implication of these trends.

Challenges to Academic Excellence

Fierce Competition for 'Top' Scholars. A world-class university is first, and foremost, known for the quality and reputation of its faculty and staff. It is individual people that develop the new educational programs, that make the breakthrough scientific discoveries, that push the new knowledge out to the broader community, and that work to create practical applications from basic research pursuits. As such, the competition for talent at universities is no different than the competition for talent at firms and corporations. Each year, the institutions with the most competitive compensation packages grow stronger by recruiting and retaining highly talented and productive people, while other institutions fall further behind.

The Increased Economic Value and Social Contribution of a Research University. If there is one element that always appears to be present in regional economic growth, it is the presence of a research university. Universities are an increasingly powerful force in the knowledge economy, both because "brains" are greater assets than ever before and because of a growing trend in which institutions of higher education are looked upon as generators of new business opportunities and licensable technology. If Minnesota wishes to thrive in a global economy, there are several key scientific and technological fields in which it must be prepared to compete. Among these key scientific fields are the medical, computer, and biological sciences, and the rapidly developing field of nanotechnology.

Challenges for Undergraduate, Graduate, and Professional Students

Heightened Competition for Undergraduate and Graduate Students. The competition for good students, nation-wide, is fierce. The best Minnesota students know they are highly sought after and have high expectations for the universities that they chose to attend. Students, as consumers of an increasingly expensive product, demand smaller classes, a sense of community, more access to the senior faculty, international opportunities, state of the art teaching laboratories, and access to cutting edge computer technology. Employers are also increasing their expectations for students coming out of higher education institutions. Regardless of the field, potential employers are demanding high skills and solid learning experiences. A university's success is as much tied to its ability to recruit and retain good students as it is to its ability to provide them with knowledge and skills that meet employer expectations.

A National Crisis in Health Professional Education. Major forces continue to reshape American health care, significantly affecting the ability of universities to offer high quality health professional education. Medical schools, both locally and nationally, have suffered from these broad forces. Cost saving measures by all health care payers have reduced patient care reimbursement rates and in the process eroded what has traditionally been a primary source of medical education funding. In addition to the funding problems in medical education, Minnesota is experiencing a critical shortage of healthcare professionals. The state is not training sufficient numbers of pharmacists, nurses, rural dentists, and medical technology specialists to both meet the increased demand and replace retiring practitioners. Unless action is taken soon, the state will not have sufficient healthcare service professionals to meet the needs of the state's current and aging population.

Challenges for Human Resources

Rising Cost of Health Care. Health insurance premiums nationwide, after a period of relatively modest price increases, are rising at an alarming rate. Private and public employers alike are facing the prospect of double-digit inflation every year for at least the next four years. Higher prices for prescription drugs, increased use of health care services by an aging population, Medicare cutbacks, and ever more costly technology are all leading to higher premiums. Despite the increased burden, recent surveys indicate that in order to attract and retain good workers, employers are increasingly reluctant to either pass a greater portion of costs on to employees or to reduce the scope of their benefits package.

Challenges for Community

Minnesota's Growing Diversity. The diversity of the state's population is increasing in both urban and rural settings, including increased racial/ethnic diversity and increases in both the elementary and secondary school populations, as well as the state's older population.

Rural Transition. Rural Minnesota is in the midst of a major economic and demographic transition. Farm consolidation, aging and declining populations, weak commodity prices, adequate healthcare, and small business survival are just some of the major issues faced by rural communities. While niche markets for specialty consumer products, advances in digital and biological technology, and an increased emphasis on workforce development have all resulted in new economic opportunities, a need exists for programs that can exploit these opportunities and promote the long-term vitality of rural communities.

Challenges for Service

Increasing Demand for Information Resources and Technology. Information is the lifeblood of a university. As agents for creating and transferring knowledge, faculty and students require rapid access to information, modern, well-maintained facilities, and the ability to communicate with scholars and professional communities around the world. These most basic teaching and research tools, however, do not come without a price. Nationwide, the costs of both traditional and electronic information resources are escalating at a rate far in excess of inflation. Expanded user expectations, rapid changes in telecommunication and information technology, exponential growth

of Internet usage, and a 160 percent growth in journal subscription costs have all led to the rising cost of supporting basic information infrastructure.

Improving Service and Accountability. We expect continued pressure for organizational change including greater integration and coordination of academic and fiscal planning; flattening the management structure and further decentralizing decision-making so that expenditure decisions are made closer to the point of service delivery; implementation of new informational and management systems; providing members of the community with a stronger sense of the relationship between performance and rewards and costs and benefits; and subjecting service units to constant scrutiny for efficiency, effectiveness, and proper incentives.

Future of Public Universities

Mark G. Yudof, University of Minnesota

President's Report to Board of Regents
May 11, 2001

Last weekend I attended a symposium called "**The Changing World of University Leadership and Governance**," which was held in honor of Clark Kerr, the former President of the University of California System. This was a fitting tribute, because I think that California has been the state that has been closest to "getting it right" when it comes to public higher education. Kerr was a driving force behind UC's successful tiered system with a half dozen or so UC campuses consistently ranked among the best in the nation.

I spoke on the topic of "University Autonomy in the New Entrepreneurial Age," and, in thinking about that topic, a few ideas crystallized for me. And it is this heady matter, the future of public universities, that I wish to comment on today. My comments are addressed to national trends, but clearly have implications for Minnesota. This is not a specific recommendation, but I think we need to be candid about these trends with government leaders and think through carefully what we're doing.

First, some context and background about what I see to be driving the debate over public education and education funding across the country: the triumph of demography, the changing nature of business in the modern global economy, the regionalization of higher education within states, an ebbing of the perception of public higher education as a public good, and the tendency to treat all education programs as interchangeable.

Triumph of demography

The most recent census showed that the median age in the US is now 35.3 years old, the highest it has ever been, and that the most rapidly increasing age group has been the population between 45-to-54 years old, which grew by 49 percent over 10 years. At the same time, households with children continued to decline, from about 50 percent of households in 1960, to less than one-third in 2000. Aging populations, like all people, are often more concerned about services that directly affect them, where the internalized benefits are relatively obvious:

- Social security
- Healthcare
- Lower cost prescription drugs
- Nursing homes
- Protection from crime

Then there are the more nuanced public goods where the more generalized benefits must be explained, where the externalities to an aging population, as economists would say, need to be appreciated:

- K-12 and higher education
- Social services and welfare

Many seniors and near-senior citizens also are interested in maximizing disposable income and hence tax reductions. They vote in higher numbers, and it is easier for public officials to feel their pain. Young people's voices are muted by their low voting rates.

Accountability for public universities is critical; we are spending tax dollars and need to be good stewards, but the hydraulic of many legislative accountability plans sometimes is more reflective of the loss of public good status than a genuine impulse toward efficiency.

Global Enterprises

Even the business community, which relies on an educated workforce and the innovations of research, sometimes is less interested in public higher education today.

- They are increasingly more interested in a tax structure that enhances productivity and profit.
- Corporations are also less rooted in particular communities as mergers and buyouts bounce CEOs and leadership to new homes across the nation and the world and as facilities and employees are spread around the world.
- Executives are nationally recruited and often not products of the communities in which they live and work.
- There has been an emergence of business's own education institutions such as Motorola University, Dell University, or McDonald's more longstanding Hamburger U, which focus on corporate-specific workforce needs and reduce reliance on local higher education institutions.

Regionalization of States

The public flagship research universities view themselves, appropriately, as statewide institutions, and yet regionalization of higher education within a given state is alive and well (Florida, Washington, Minnesota, Wisconsin, Pennsylvania, and Texas, just to name a few).

- This is exacerbated by rural/urban conflicts.
- Community support for regional institutions translates into political support that keeps subsidies in place and undermines the "sink or swim" privatization model that I'll touch on in a moment.

In short, I see across America a gradual withering of the covenant or understanding that the work of public research universities is a public good. Hence the recent reports from the Kellogg Commission calling for a new covenant.

Privatization of Public Education

A call to a radio show on Minnesota Public Radio, where I was appearing as a guest, encapsulates well this "withering" trend. A man called in and he basically asked me the following (paraphrased):

"How does the subsidy for higher education benefit me? Why should I support someone else who gets an education and gets a good job – who then might even leave the state? I'm all for research, but from what I hear, most of the money goes to help private industry. Why should I be charged for that?"

This is very similar to the question asked by the "wicked child" at the Passover Seder in Jewish households. The wicked child disassociates himself and excludes himself from the larger community. I will not answer this question at length before this audience, except to say that this is wrong, that higher education is a public good. It cultivates qualities of citizenship, engages in important research on technology and society, creates art and literature, spurs economic growth, maintains and enriches our exogenetic heritage, and helps people to lead fulfilling lives. Education benefits all of us, not just the student and faculty member. This is not a blind faith but reflects the extraordinary achievements of public higher education in this country over more than 200 years, a record that is the envy of the world.

The creeping loss of public good status may be a result of the knowledge revolution, which emphasizes entrepreneurship, dependence on private funds, relations with business, etc., but it also long predates Palm Pilots and dot coms, going back at least 20 years.

Some conservatives embrace the privatization model, attempting to create markets in public higher education: they advocate higher user fees (tuition), quality through competition among universities, and higher financial aid, roughly equivalent to income-adjusted vouchers.

- The University of Michigan is the oft-cited exemplar of this model. North Carolina and Penn State also appear to be moving in this direction.
- High access and low tuition have been traditions in Minnesota (and on this Board of Regents), but that's not reflected in how the state funds us.

Education: an Interchangeable Good?

On the other end of the spectrum, some liberals appear more concerned with democratic (vs. elite) education and ensuring broad access to two- and four-year institutions than in building flagship public research universities. The tendency is to view all education programs and courses as interchangeable, with no concern for qualitative differences. It is also to ignore the research component of the flagship universities.

Concerns about the Market Models

- What are the challenges posed by a market model? A market system relies on some providers going out of business if they are not competitive. It doesn't work that way if subsidies continue to public institutions that fail to attract enough student dollars.
- The model assumes a free national market that does not exist, e.g., \$900 million California public/private investment in research, \$1 billion in Michigan over 20 years. That is like making Minnesota farmers play by the market rules when France and Germany are subsidizing their farmers.
- Important aside: some see public universities as an economic engine – hence they need to regulate or guide them.
- There is no understanding of curiosity-driven research, which brought us the discovery of the double helix structure of the DNA molecule, among countless other discoveries and innovations.
- It is very hard to predict where the economy will go. This is why I tend toward focusing on broad clusters of research rather than specific, earmarked proposals.

Neurotic Strategies?

Those of us at flagship public universities could fairly be described as neurotic, if that's your description for repeated strategic behavior that has a dysfunctional outcome.

- Collectively, the public universities like to claim that we compete for faculty with the best of the privates, and in a meaningful sense we do. Yet the compensation gap between public and private universities grows annually (about \$22,000 at the full professor level in the most recent survey).
- Governing boards, faculty, and administrators constantly press the case that their public university is falling behind in attracting and retaining faculty at competitive salaries. Yet elected leaders rarely perceive this as a race or competition that should cause concern. The relationship between programs and quality faculty is often overlooked.
- Indeed, lower salaries at very good publics are often viewed as evidence that you can do well without being competitive in compensation, that "good is good enough."
- Publics are not as selective as private institutions in admitting students and this affects graduation rates, as do the higher student-faculty ratios in the public sphere.
- Popular rankings of universities are often based on student selectivity and low student faculty ratio (in essence, expenditure per students). Bottom line: In *US News and World Report's* latest undergraduate rankings, only UC-Berkeley and the University of Virginia cracked the top 20 list.
- Government is often reactive to crises rather than proactive, and much of the public may not view public universities as in crisis – though governing boards, faculty, and administrators, who understand the numbers, do. Government often does not perceive the decline in status of public universities, not understanding the widening of the public/private divide.

Hard Choices

The future then portends a decline in excellence at most great publics or that they must move to a more mixed funding model.

- But high tuition hits middle class hard unless there is substantial financial aid.
- The mixed model erodes some public constituencies, particularly those that benefit from outreach activities that cannot be built into the tuition cost structure – it is hard to charge students for outreach activities. This is the reason why private institutions do less outreach and are less likely to perform functions of traditional land grant institutions.
- There exists a kind of purgatory for public universities outside California, Michigan and Virginia: moderate tuition, not enough public aid, and inability to compete with elite private universities. California is high public subsidy, low tuition. Virginia and Michigan enroll substantial numbers of non-residents as students and they pay very high tuition charges. (At the U of M, many of our non-resident students pay resident tuition rates because of our reciprocity agreements.)

I think that we are being forced into a new hybrid model by degrees, and we have to think about making deliberate and positive choices to avoid the gradual erosion of the great public institutions. If you have looked at the *Chronicle of Higher Education*, you have seen recent decisions at North Carolina and Iowa; higher tuition at Penn State.

As President, I have tried to be honest with this Board and to let the operations of this university be as transparent as they can be to the state policymakers who have so much to say about our future. I think that all of our cards are on the table, and without a change in public and governmental attitudes, the tradition of a first class public university will wither unless we rethink our strategies.

And I think that you as Regents know better than anyone else how hard we've pushed this legislative session. Short of skywriters and dropping leaflets from the air, we've all been out there lobbying for this year's request. Our colleges and units deserve a great deal of credit for their enthusiasm and support, and our friends and alumni have truly come through for us. With ten days left in the legislative session, we cannot become complacent and give up the gains we may have made. The Senate appropriation would allow us to maintain our momentum, with diminished aspirations. The House bill would not.

But we also have to look beyond current legislative issues to the difficult decisions that await us. All of us need to describe a long-term pathway that is feasible and achieves excellence. I trust that this board will make the right decisions, but the Regents, faculty, staff and administration will all be challenged to create a future we all believe in so deeply, but which our present funding structure does not appear to support.

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