

The Costs of Higher Education

CPI Index

Basic Nature

Colleges are both energy-intensive and labor-intensive, and these are the costs which have increased most rapidly over the past two decades.

Other unusual costs:

Books and periodicals up by 150%

Supplies and materials up by 120%

Services by outside contractors by 100%

Tax Bills

Because colleges are labor intensive, they pay high employment taxes in relation to their total revenue...and these can exceed the total of employment taxes and income taxes paid by less labor-intensive organizations that have ways to shelter their income.

Further, colleges are being taxed in many new

ways (FICA, UBIT,...)

Catchup

Colleges are still trying to make up Error!

over the past 10-15 years, including expenses that they deferred during periods of high inflation, when tuition increases were considerably below inflation rates.

Of particular importance has been the loss in income suffered by faculty during inflationary periods (20% of purchasing power during early 1980s)

Head 2 + Higher costs of making capital investments has put pressures on colleges. Many campus facilities are several decades old and in need of substantial repair.

New demands >

Energy conservation

Government-mandated requirements

...handicapped

...safety

...affirmative action

Inadequate support from traditional sources

No student, including those who pay full tuition, is paying even close to the real costs of their education. In public institutions, generally they pay between 10% to 25% of the real costs. In private institutions, it is 40%.

However this can only be done by maximizing income from sources other than tuition.

Colleges have had to increase borrowing, not only for investment, but also for working capital because many traditional sources of funds have dwindled or are no longer available.

Capital facilities

Only 3 buildings in 25 years at UM...\$72 M...

...yet state should have been investing \$20 - \$30 M per year

Federal government has had no major facilities program since early 1960s...

Furthermore, has provided little help for equipment

Student Aid

Federal programs have dried up or switched to loans

...they have not kept pace with the costs of education

Colleges now must provide more aid than ever... since 1980, has doubled to \$6 B.

Higher tuitions from those who can afford to pay enable other less fortunate students to attend.

Research

Federal funds for research have declined dramatically...

In past 20 years, have dropped from 30% of total to just 12%.

Private giving

Private gifts account for less than 6% of total revenues...

Bottom Line

As a result, colleges have been forced to raise tuition and R&B to levels of cost-recovery, since other sources of revenue have deteriorated.

Impact of Lower Tuition

Less funds from tuition will result in cutbacks in the quality of instruction.

Investment

The money invested in a college education results in about a 10% return annually due to higher salaries commanded by college graduates.

Hence, tuition should more properly be thought of as a long-term investment (such as a house) that must be financed over the long term--and that will earn a good return over the long term.

The Age of Knowledge

In many fields, the knowledge base is doubling

< - every few years...

Is it not understandable, therefore, that both

the amount of education...and the costs of that education...should similarly increase

and in real terms...

costs

> + Computers, laboratory instrumentation,

medical devices,...all so very necessary to the education and training of tomorrow's professionals...all cost money...