

Costs of Education

Real Issues

Question 1: How good do you want your institutions to be?

Higher education is one of the most competitive industries in America, with over 3,500 institutions competing for students, faculty, funds...not to mention the international marketplace.
(We not only compete against
Hence, if you tell me how good you want an institution to be, then I can give you a pretty accurate idea of how much you will have to invest.
Then that determines an investment per student and per faculty that we will have to make.
Do you want the University of Michigan to be as good as:

- ...Harvard or Stanford?
...then it will take about
...\$50 K per year per student
- ...Berkeley or UCLA
...about \$30 K per year
- ...Ohio State or Minnesota
...about \$18 K per year
- ...Mississippi or Montana
...about \$10 K per year
- ...or Southern North Dakota State at Hoople...

Incidentally, it is clear that if you want to pay only bargain-basement prices, then you are going to end up with bargain-basement quality.

Question 2: Who is going to pay for this quality?

The state taxpayer?
The federal taxpayer?
Parents?
The student (through loans and deferred payments)?
Private philanthropy from
industry, foundations, alumni, friends?
Unfortunately, there are no other options.
Someone has to pay.
But it seems clear that nobody is willing to step up and accept this responsibility.

Question 3: Should all institutions be the same...or do you

want to differentiate among the missions of Michigan's public institutions...
More to the point, do you want U of M to compete with the very finest institutions in the world...or not.

Political Issues

Question: What is the principal source of the irritation

between the Governor and higher education?
Answer: The Governor's efforts to set university tuition levels.
Why?: This is viewed by the institutions not only as an inappropriate tampering with institutional autonomy, but it is furthermore seen as posing a very serious threat to the quality of public higher education in Michigan since tuition constraints are being applied during a period of eroding state appropriations.

Other Observations:

1. It is clear that motive to control tuition levels for Michigan resident students has little financial basis. Tuition levels at public institutions are already quite low. Further, tuition represents only a small part of the total cost of an education (< 30%). Finally, even these small costs are compensated by strong financial aid programs for those students with financial need.

2. Rather, the motivation behind tuition control is political opportunism, stimulating and playing upon a serious public misunderstandings of the real costs of higher education. Tuition control is also clearly a response to the political dangers generated by design flaws in the Michigan Education Trust program.
3. It seems clear, however, that the forces creating such bitter conflicts over tuition will continue to intensify. As public institutions become ever more tuition dependent in the face of the low priority given funding of higher education by the Blanchard administration --and their boards and leadership become more scarred from the brutal assaults on institutional autonomy conducted by the Governor's staff--they will become even more determined to resist tuition control pressures. Yet, as MET digs itself deeper and deeper into a financial hole, the pressures on the Blanchard administration to intensify their efforts to set university tuition levels will continue to grow.
4. It seems imperative for the quality of higher education in Michigan and the future of our State that both sides, our public universities and the Governor, work together to remove the serious obstacle to cooperation represented by tuition control.

MET

What is MET?

- A "Brooklyn Bridge" to those purchasing contracts
 - ...since it has been seriously misrepresented
 - ...and seriously underpriced
- A "Frankenstein monster" to Michigan's future
 - ...since by artificially constraining tuition levels during periods of eroding state support, it undermines the quality of higher education in Michigan

Most serious...

- MET has become the primary wedge driving the Governor and higher education farther apart
- In an effort to protect MET, administration has taken an increasingly adversarial approach to higher ed...
 - ...playing on public fears about tuition
 - (NOTE: This is clearly a red herring)
 - ...attempting to portray higher ed as greedy and wasteful

Seriously underpriced...

- \$100 M hit in first year alone...
- Should price at "market" rates...
- NOTE:
 - i) All other prepaid tuition plans price contracts at actual tuition levels or higher (indeed, the largest such plan prices] them at 150% of current tuition levels). In contrast, MET prices contracts at 63% of current tuition levels, thereby requiring unrealistic real rate-of-return rates (10%).
 - ii) MET has come under strong criticism at the national level by a number of independent studies as an example of an ill-conceived approach to "tuition insurance". Arthur Hauptmann of the Brookings Institute notes "From a state's point of view, you have to be crazy..."to adopt such plans. He portrays it as a financial yhramid scheme where the last one in loses the most...

Seriously misadvertised...

- MET will cover only 25% of costs of a college education in Michigan
- MET will yield \$8,000 (after taxes) compared to \$34,000 in anticipated costs (in constant dollars)
- Real cost of education is R&B, books, etc...not tuition

Plays on public fears...
Why guarantees???
Legislature?
Universities???

Serious social questions...

Really benefits the rich...
"welfare for the rich"...

Why?

Tax deduction (\$265 M has already been exempted from
state income tax)

Artificially constraints tuition...

...which is principal source of financial aid

Hinders rather than ensures access

Most institutions are like UM...

...meet full financial need through aid programs...

Artificial constraints on tuition prevent us from doing this...

Other technical features

Coopers & Lybrand have "cooked" the data

Took wrong tuition assumptions

Unrealistic earning assumptions

Unrealistic tax assumptions

Haven't accounted for liquidity requirements
(to handle defaults or backouts)

Bowman (and Cole) have ramrodded this through
without adequate consultation...

...even MET Board has been badly bruised

Recent Assessments

Federal tax status implies that 9.76% pretax rate of return
becomes, in effect, 6.44% (less than tuition increases)

Assumptions:

HEPI of 5.0% is far too low (average is 6.3% over past decade)

6% per year increase in state appropriation

7.3% tuition increase is still low

Pretax return of 9.75%, but this is far too optimistic

unless MET is switched to other investment instruments
than commercial paper (short term money market)

NOTE: Without federal tax help, a 10% return after 34%

tax on earnings would require a 15.15% total return...

...or higher to cover administrative fees

They believe 13.4% increase in contract costs reflect
lower than expected investment rate of returns,
uncertainty about funds tax exempt status, and
too low 198 contract prices.

Prisons

In fact, the only area where we now lead
the nation is in our prison system...

We are now investing more in prisons than
in higher ed...that is, we spend more money
putting people into jail than we do in
keeping them out of jail!

Over the past 5 years, the Corrections budget has
increased by 141%, compared to a 25% increase
for higher education.

Corrections will be \$633 in FY88-89 (compared to
\$1,137 M for higher ed and \$2,144 M for social
services), but projected to grow to \$2 B in 1990s.

Each of 25,000 inmates require \$22,000 per year...

Furthermore, we have spent over \$1.3 B to build new
prisons...every penny of new construction funds...
and now appear prepared to launch a second wave
of prison construction, even though demographics

suggest that many of these prisons will remain empty. Further, while state revenues are projected to increase 5% in the year ahead, the exploding corrections budget (\$140 M additional just to operate the new prisons) will eat up this growth, thereby crippling other state priorities such as education and social services.

Michigan's prison population

grew faster in 1988 than any other large industrial state. In fact, it grew at 16.1%, more than double the national average of 7.4%.

This is attributed to tougher sentencing by judges who are elected. They are responding in part to the demands of the public to keep the streets safe.

Michigan has 300 prisoners for every 100,000 residents, the highest ratio among the 12 midwestern states.

The proportion of women in Michigan prisons 4.8% is slightly below that of the national average.

Nationally, the number of additional prisoners set a record for the 14th consecutive year--43,000 (demanding 800 new prison beds every week).

Philosophical Issues:

What has happened to our priorities?

What is wrong here???

Who is to blame???

Our schools and colleges???

Certainly they must take stronger actions to improve quality...and strive harder to operate in a more cost-effective manner...

But their present situation reflects as much as anything else our own personal priorities...

...as parents

...as volunteers...

...as citizens and voters...

What about our elected public officials???

It is certainly not their fault!!

It is clear that our elected leaders, whether in Washington or Lansing or our local communities...

Would like nothing better than to make education their highest priority.

To become

...the Education Governor

...or the Education Party

...or the Education President

They understand clearly the importance of investing in our human resources, and they are searching valiantly for creative ways to improve the quality of our schools and provide adequate and equitable financial support.

But they also face formidable constraints, since in the end they must be responsive to the wishes of the electorate...and face it, gang...the electorate today says:

i) no more taxes...

ii) no more crime...

iii) no more cuts in social services or national defense...

and our public officials have no choice but to respond.

No, the real finger of blame for the crisis we face in education should be pointed, as Michael Jackson would say, at "The Man in the Mirror"...

...at you and at me...

We are the ones who fail to demand the highest quality in our educational institutions in Michigan...

We are the ones who steadfastly resist a tax base adequate to support both our needs and desires...and provide an

adequate level of support for quality education in this state.
We are the ones who block any effective efforts to achieve equitable financing of education in Michigan.
We are the ones who generally are too busy to help our own children in their studies or participate in their activities.
And we are the ones who insist on building more and more prisons, even when we know that this investment comes out of the hide of education and social services-- which are, of course, the only true long term solutions to crime!
We have become consumers of education, not investors in the future.

What's Going On Here?

Something has changed in America...
You know, I was brought up in a long tradition in which one's first responsibility was to one's children
My parents scrimped and saved for my college education...
...and my wife and I have done the same for our daughters (who, since they attended eastern private universities, have taken essentially all of the savings we have been able to muster over the past 20 years)
Saving for a college education came first...
...before a house, before a fancy car, before an exotic vacation
But today's generation is different...
...the "me generation" of the 1960s has grown up into comfortable Yuppiehood...
...it is bad enough that they have not saved for their children's college education
...and not supported adequate tax programs to support higher education
...but they have actively encouraged government at both the state and federal level to intervene in an effort to hold tuition levels to unrealistic low levels...
(either not realizing or perhaps not caring that they were undermining the quality of the education their children would receive at these bargain-basement prices--and depriving many others from less fortunate backgrounds of the opportunity for a college education because of the erosion of financial aid programs in the face of inadequate tuition revenue).j
Our approach to education...like to so much else in life these days...can be summarized by that T-shirt slogan: "Eat dessert first, life is uncertain"
We see ourselves caring about the future, but we are not preparing for it.
"American's look ahead 10 minutes while Japanese look ahead 10 years..." (Morita, Sony)
"The last ten years have witnessed the substantial abdication by our governments of their responsibility in critical society areas, including education". When matched against the Japanese commentary, it is virtually cause and effect.
Without the opportunity for all Americans of limited or virtually no real income to obtain the benefits of an outstanding education, the class gap will continue to grow.
And we will develop an educational elite in the 19th Century European tradition, to be sure, with all of its unfortunante results.
Japanese trade negotiations:
US should upgrade schools, invest in scientific research,

close the Federal deficit, and take other drastic steps to improve American industrial competitiveness.
"If the US wants Japan to change its system, the US must be more ready to correct its own shortcoming. We can't solve our trade imbalances looking at Japan alone."

American high schools and colleges must upgrade the teaching of mathematics, science, and foreign languages.

Yet the writing on the wall could not be clearer:

As we prepare to enter the Age of Knowledge, our ability to sustain the strength of our state and our nation...to achieve the quality of life for our citizens...will be determined, more than any other factor, by how we develop, nurture, and educate that most precious of resources, our people.

Hence, let me conclude my brief remarks by tossing at you--and at me--several challenges:

Concerns...

Needless to say, the same challenges of pluralism, of internationalization, and of this age of knowledge that is our future will also pose great challenges to our state.

Indeed, I am absolutely convinced that our State faces a very unusual period of challenge in the decade ahead...a watershed, in a sense, from which we can either emerge at a national leader...or as an also run... or perhaps even worse...as an Appalachia...

Maintaining Michigan's competitive edge requires attention to our traditional strength -- people and research -- and a strong offensive strategy based on these resources.

Central theme is that education, broadly defined, will play a pivotal role in the coming economic transition and its impact on individuals.

Previous economic transformations were closely associated with major public investment in infrastructure such as railroads, canals, electric networks, and highways. In the coming economic transition, an equivalent infrastructure will be an educated population.

Quite frankly, the choice will be ours...whether we choose to continue our tendency of recent years to spend our resources only to meet the needs or desires of the moment... or whether we can develop the vision, courage, and discipline to invest in the future of this state...not just for this year or next...but for the next generation...our children...

Message is clear: as in other areas of American

life, the desire to consume is outstripping the desire to invest.

Concluding Remarks

To Us...

In a very real sense, our state has entrusted to us its most valuable resources...its youth...and its future.

To be responsible stewards of the public trust, it is clear that we must strive to achieve greater cost-effectiveness in our use of public funds...and I can assure you that we intend to do just that.

But even beyond this, we must become staunch guardians for the quality of our institutions...

For in education, as in every other aspect of American life, quality will be the key to our future.

Hence, to us falls the responsibility of taking the forceful and courageous actions necessary to sustain and enhance this quality...in the long run the people of this state both demand and deserve nothing less!

To You...

Higher education represents one of the most important investments a society can make in its future...since it is an investment in its people...
It is indeed the case that our state and our nation have developed the finest systems of higher education in the world...
But we must also remember this resulted from the willingness of past generations to look beyond the needs and desires of the present and to invest in the future by building and sustaining educational institutions of exceptional quality--
Institutions that have provided those of us in this auditorium today with unsurpassed educational opportunities.
We have inherited these marvelous institutions because of the commitments and the sacrifices of previous generations...and it is our obligation as responsible stewards--not to mention as responsible parents--to sustain them to serve our own children and grandchildren.
It seems clear that if we are to honor this responsibility to future generations, we must re-establish the priority of both our **personal** and our **public** investments in education, in the future of our children...and hence in the future of our state and our nation.

A different way to look at it:

The Investment in Human Capital...
The real issue here is not the investment in education... it is the priority that we as a nation place on investing in our children.
We should feel both embarrassed and ashamed for robbing our youth to pay for our own excesses...
But let's take the cynical view that responsibility and stewardship will simply not be a compelling enough argument to reprioritize the importance of investing in human capital...in our youth.
There is another viewpoint, however...
If we do not invest in the youth of today, they will not become a sufficiently productive workforce to keep the checks coming to those of us who retire in future years!!!
By 2000, there will be only three workers to support each retiree...and one of these will be minority!
Look at it another way...which is the better investment...
\$3000/y to keep a preschool kid on track
\$5000/y to achieve a strong K-12 education
\$10,000/y to sustain strong college education
or \$25,000/y to put someone in jail...

The Need for a New Coalition

Today Michigan faces serious challenges that will clearly determine its future prosperity and well being...
the challenge of pluralism...
the challenge of participation in a global community...
the challenge of the Age of Knowledge
the challenge of change itself...
If we are to respond, we simply must reorder the priorities of this state...
We must shift away from the temptation to address only the needs and desires of the moment
And, instead, we must begin to make some of the key investments necessary for the long term...
The key investments in our people...
in our children...
This is not just the worry of local communities or state government or public institutions
It is everybody's concern!
Each of us must step forward and unite to

face the challenge of the future.

We must work together to build new coalitions including the public and private sectors...state government, education, business, industry, and labor...to develop an agenda appropriate to secure the future of our children, our state, and our nation.

Michigan continues to be blessed with abundant natural resources, a people of great strength, and a system of higher education of a quality envied by the rest of the nation...indeed the world!

But, the writing is on the wall...

If Michigan is to prosper in the age of knowledge that is almost certainly our future, we must join together now to restore both our public and personal investments in education...
...in our people and their ideas...
...in our children...
...and in our future

State of Michigan Funding

Perhaps the most ominous dark cloud on the horizon of all is the increasing evidence that we as a people we have not yet recognized either the nature or the magnitude of the investments we must make to achieve prosperity in an age of knowledge.

While we all give the "age of knowledge" lip service, the evidence suggests that in reality, we long for a return to the agricultural and manufacturing economies that once made us reach...

2. Over the past several years, numerous studies have

suggested that Michigan is seriously underinvesting in its "knowledge infrastructure"...by as much as 30% to 40% relative to other states.

3. The challenges faced by K-12 education were well-summarized in a recent editorial in a Detroit paper:

"If Michigan is to prepare tomorrow's workers for tomorrow's jobs, major structural changes are needed in public education, both in classroom quality and in the adequacy and fairness with which the system is financed."

"What is required is a strengthened commitment in Lansing to school finance reform and improving the quality of basic and higher education, and a greater political willingness to stand up to special interests who would thwart those long-term goals to pursue short-term objectives. The opportunity to eliminate chronic unemployment in Michigan may be never more within our grasp than between now and the end of the century. The alternative is a growing mismatch of job opportunities and job training that threatens not only the state's recent prosperity, but its very solvency."

(Free Press editorial, 1/5/89)

Earlier this year we learned that Michigan ranks 48th in the nation in the rate of retention to H.S. graduation.

I cannot believe that we as a people can accept that kind of performance.

Yet, we continue to be paralyzed in our efforts to come to grips with school finance reform or major structural changes necessary to achieve quality in public education.

4. The situation is somewhat different yet no less acute for higher education in our state.

While the quality of Michigan higher education today is very high, the long term prognosis remains guarded...

Michigan Rankings:

Total state appropriation per student (CC + U): 46th

Total state appropriation per student (4 Y): 32nd

State appropriation per capita: 24th
Increase over past 10 years: 45th
Increase over past 2 years: 42nd

Over the past two decades, the State of Michigan has dropped from the position of a national leader (ranked 6th in 1965) in its public support of higher education to among the lowest in the nation (ranked 37th in 1989)

- i) Appro per student 43rd
- ii) Appro as % of tax 37th
- iii) Two year % inc 42nd
- iv) Ten year % inc 45th

Our state has dropped from 6th in the nation in its support of higher education to 35th over the past two decades... into the bottom third!!!

As a highly industrialized state undergoing a dramatic change to a knowledge-intensive economy, Michigan is critically dependent upon quality higher education. Yet Michigan has now fallen into the bottom ranks of industrialized states in its support of these critical resources.

We are being outspent by 30 - 40% in state support per student...
Not simply by prosperous states like California...but by neighbors such as Indiana and Ohio!

Indeed, one measure of the importance of higher education in the state budget is the ratio of tax dollars per enrollment ratio... a measure by which Michigan ranks 47th in the nation!

Whether measured in terms of state appropriation per student or fraction of our tax dollars directed toward higher ed, it is clear that in comparison with other states, our present level of public support is simply inadequate to maintain over the long run a system of higher education that is competitive on a national basis.

What about the tax dollars we are paying?

- i) UM share of state tax revenue has dropped by 42% over past 20 years (from 3.74% to 2.15%)
- ii) Hence, today, only about 2 cents of each tax dollar goes to UM
In other words, someone paying \$5,000 per year in state taxes will be paying only about \$100 for UM
More specifically, the typical parent over their entire earning career, will pay less than \$3,000 of taxes for the UM (assuming 30 years of earnings)...
(NOTE: We can scale this for all of higher education using the 23% UM share...
...hence this implies \$400 per year and \$12,000 per career
...a bit closer to the tuition...but a long shot from real cost

By way of comparison, the cost of a Michigan education is

UG Tuition: \$12,000

UG Cost: \$50,000 to \$80,000 (depending on how one counts)

Hence it is clear that others must be shouldering the real costs for educating one's kids in a Michigan public university...not the taxpayer himself

Caveat: Actual state investment per student per year is:

$\$240 \text{ M} / 35,000 = \$6,800$

Two corrections here:

- i) Focus on Michigan residents only
 $\$240 \text{ M} / 22,000 = \$10,900$
- ii) But, of course, state support goes to support not only instruction, but also research and service. If we figure that roughly 70% goes for instruction, this essentially negates the nonresident student effect

$$(\$240 \text{ M} \times 70\%) / 22,000 = \$7,600$$

Thus, state is investing roughly \$7,000 per year per Michigan student...

...UM spends an additional \$12,000 to \$14,000...

Put it all together...

Through taxes and tuition, typical parent with two children will be

paying \$12,000 taxes + 2 x \$12,000 tuition (for two kids) = \$36,000

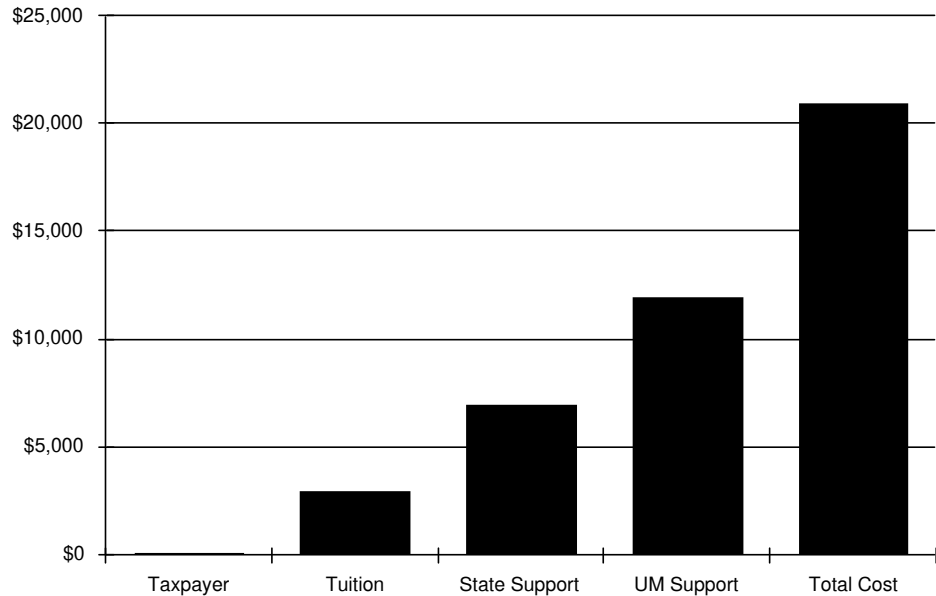
Actual cost will be: 2 x (\$50,000 to \$80,000) = \$100,000 to \$160,000

Hence, personal investment by parent (including taxes) will be

$$\$36,000 / (\$100,000 \text{ to } \$160,000) = 20\% \text{ to } 36\%$$

Quite a bargain!!!

Comparison Chart



5. Threats to autonomy...

But political efforts to set tuition levels in Lansing rather than on our campuses raise another even more serious threat.

The traditional autonomy of governance of Michigan's public universities has been the critical factor in sustaining program quality while continuing to serve the state in spite of sharp erosion in public support.

This autonomy allowed Michigan's universities to take strong internal actions, reallocating resources, redefining priorities, and increasing tuition levels to partly compensate for reduce public support.

In recent years, however, even as state appropriations have been declining, the political pressure to restrict tuition levels to artificially low levels has increasingly threatened this autonomy.

While such political efforts have been portrayed as an effort to protect access (affordability) to public education in Michigan, they have had just the opposite effect by slashing financial aid programs.

It is clear that these forces from Lansing are being driven by not by concerns about access, but rather by fears that the Michigan Education Trust program, a prepaid college tuition program

developed and financial on the assumption of low tuition levels, will become financial insolvent.

Governor's Higher Ed Taskforce

The Commission clearly identified the fact that "public higher education in Michigan is at a crossroads".

It noted that per capita support had fallen from 1979 to 1983 from 14th to 37th.

Further, it noted that Executive Order cuts had played havoc with planning, resulting in maintenance deferrals, equipment purchase cuts, and eroded support for fundamental activities-- all at a time when other states were increasing support for their systems of higher education.

It also credited Michigan's universities with launching a systematic process of improving efficiency and redirecting the system. In particular, it noted that from 1980 to 1984, over 100 programs were eliminated, thereby indicating the creativity and adaptability of the system.

It concluded that if nothing was done, higher ed in Michigan was likely to face a future in which mediocrity is coupled with inaccessibility, a totally unacceptable results for Michigan's citizens. "To provide wide access to a higher education system of mediocre quality is to perpetuate a hoax on Michigan's citizens".

Federal Funding

Federal student-aid grant programs dropped 50%

to onehalf the level of their purchasing power between 1980 and 1987. Two key reasons:

- i) Pell Grant Program didn't keep pace with inflation
- ii) Elimination of Social Security scholarship program.

Colleges have coped with this steep decline in federal student aid by putting significantly more of their own money into scholarships. They have raised this extra money by cutting other costs, increasing fund-raising, and increasing tuition.

Philanthropy

Americans give \$104 B...but only 9.4% to education

(46.2% is to churches, 10.1% to human services, and 9.1% to hospitals)

Unfortunately, the contributions to education is the

only component decreasing (-5% last year).

Could be demographics as our population ages.

But, spending on education is an investment...

...spending on the elderly is consumption.

Tuition

Tuition Myths and Realities:

Let me give you a very concrete example of the way in which this rampant consumerism now threatens higher education... and that has to do with the efforts to artificially constrain the costs of tuition.

Today, both across this state and across the nation, we find a rising tide of resistance to college tuition levels.

In fact, there are strong forces encouraging government at both the state and federal level to intervene and essentially fix tuition

...to fix prices and control the marketplace,
you will...

So what is so dangerous about this trend?

Won't it keep those greedy colleges from gouging
students and their parents?

Won't it keep a college education affordable for
those of limited means?

Let me destroy a few popular myths....

Myth1. Tuition levels in Michigan's public universities are high?

Absolute rubbish:

Reality: Tuition levels in Michigan's public universities are quite
low and comparable to those of most other public institutions
throughout the nation.

Background:

1. The roughly \$2,000 to \$3,000 of annual tuition and fees charged
to in-state undergraduates in Michigan's public institutions represents
an incredible bargain when compared to all other alternatives--public
or private education, in Michigan or across the nation.
For example, it costs more to attend Cleary College (\$4,163) to learn
secretarial skills than to attend the University of Michigan (\$2,876)!
Michigan students face far higher tuition levels at peer public institutions
(UC-Berkeley tuition runs \$9,000 - \$10,000) and at peer privates
(Harvard, Stanford, and Cornell tuition run \$14,000 - \$15,000).
Another calibration: The cost of a degree at a public institution
in this state is less than the cost of a new car!...
Further, this investment will be paid off in only a couple of years
following graduation because of the very high earning capacity
of our graduates.
2. Because the absolute tuition levels at public institutions are so low,
it is very misleading to attempt to compare costs through tuition increase
percentages. (A large percentage of a small number is still a small
number...)
Further, the real cost of higher education at public institutions is NOT tuition.
Rather the primary costs of public education in Michigan are attributable
to room, board, books, travel, and other expenses. Indeed, tuition
represents less than 25% to 30% of cost of a college education to
Michigan residents.

**Myth 2. The increasing tuitions at Michigan's public
universities are pricing them out of the reach of
all but the very wealthy**

T or F: Again, absolute rubbish!

The reason, of course, is the presence of effective financial aid programs.

For example, at U of M, we have a policy that
guarantees that ALL MICHIGAN RESIDENTS ARE
PROVIDED WITH ADEQUATE FINANCIAL AID TO
MEET THEIR NEEDS UNTIL THEY GRADUATE.

In fact, roughly 65% of our Michigan resident students
receive some form of financial aid
(amounting to \$140 M last year.)

Further, families with incomes up to \$60,000 are
eligible for some form of financial aid.

(In fact, if you have 3 kids, up to \$80,000 is eligible.)

**Myth 3: Surely the fact that tuition rates are increasing
faster than the CPI reveals that universities are not
cost-effective and are exploiting the marketplace.**

1. While it is true that tuition has increased more
rapidly than the CPI, it is important to note that
resident tuition levels at public institutions throughout
the nation were essentially at token levels until the
late 1970s when public support began to wane.
It has been clear public policy that the nominal

tuition levels charged to resident students at public institutions should be increased somewhat to reflect a shift in support from general tax dollars to those who benefit the most--and who most can afford to pay. Nevertheless, in absolute terms, these tuition levels are still extraordinarily low (\$2,000 to \$3,000 per year at public institutions, compared to \$10,000 to \$15,000 per year at private institutions). Hence percentage increases are misleading because of the unusually low absolute level of public university tuitions.

2. Several other points:

The CPI measures things like the costs of housing, food, etc.

But suppose you were required to live in a bigger and bigger house each year... then, don't you think that your costs would increase more rapidly?

Well, that is just what is happening in higher ed since in many fields, the amount of new knowledge doubles every five years or less.

Is it not understandable, therefore, that both the amount of education...and the costs of that education...should similarly increase in real terms...

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

3. Further, even the percentage increases in tuition

have lagged the percentage increases in disposable family income over the past two decades.

For example, over the past 15 years, tuition has increased 232% while personal income has risen 252%.

Hence, there has been very little change in the percentage of income required to meet tuition costs. In fact, college expenses have risen far more slowly than many other costs, such as housing, health care, automobiles.

4. Furthermore, dramatic increases in financial aid have extended educational opportunities to many who could never have afforded a college education in years past. Hence, in a very real sense, a college education at the UM is more affordable today than it has ever been before.

5. In Michigan state appropriations have exceeded the CPI in only 3 of the past 10 years. Indeed, over the past decade, the State of Michigan ranks 40th nationally in appropriation increases--and last among the large industrial states. In recent years, our state has continued to sink further below the national average in its support of higher education. Hence, a combination of tuition increases and program cuts has been required to balance budgets. Without tuition increases to offset the erosion in tax support, the quality of higher education in Michigan would have been seriously damaged.

Myth 4: The price of a college education is no longer worth it.

Wow!!! Absolute nonsense

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

That amounts to over \$500 K in

constant dollars...and in the
knowledge intensive professions it is far higher
Further, at a leading university such as UM,
we are investing roughly \$25 K per year per student
in creating the type of learning environment necessary
to prepare our graduates for the 21st Century.
By way of calibration, our present instate tuition levels
are \$3,300.
We ask parents to contribute 12 cents on the dollar!
Not a bad deal, I'd say!

**Myth 5: Hold on now! My taxes pay for the college
education of my children...**

Balony!!!

- i) UM share of state tax revenue has dropped by 42%
over past 20 years (from 3.74% to 2.15%)
- ii) Hence, today, only about 2 cents of each tax dollar goes to UM
In other words, someone paying \$5,000 per year in state taxes will
be paying only about \$100 for UM
More specifically, the typical parent over their entire earning career, will
pay less than \$3,000 of taxes for the UM (assuming 30 years of earnings)...
(NOTE: We can scale this for all of higher education using the 23% UM
share...
...hence this implies \$400 per year and \$12,000 per career
...a bit closer to the tuition...but a long shot from real cost
By way of comparison, the cost of a Michigan education is
UG Tuition: \$12,000
UG Cost: \$50,000 to \$80,000 (depending on how one counts)
Hence it is clear that others must be shouldering the real costs for
educating one's kids in a Michigan public university...not the taxpayer
himself
- iii) And, as I noted earlier, over the past 20 years, Michigan has
fallen from 5th in the nation to the bottom third in its
support of higher education.
Hence, while you may be paying lots of tax, not much of
it is going to support higher education!

Why is tuition increasing?

Comparison of State Support plus Tuition

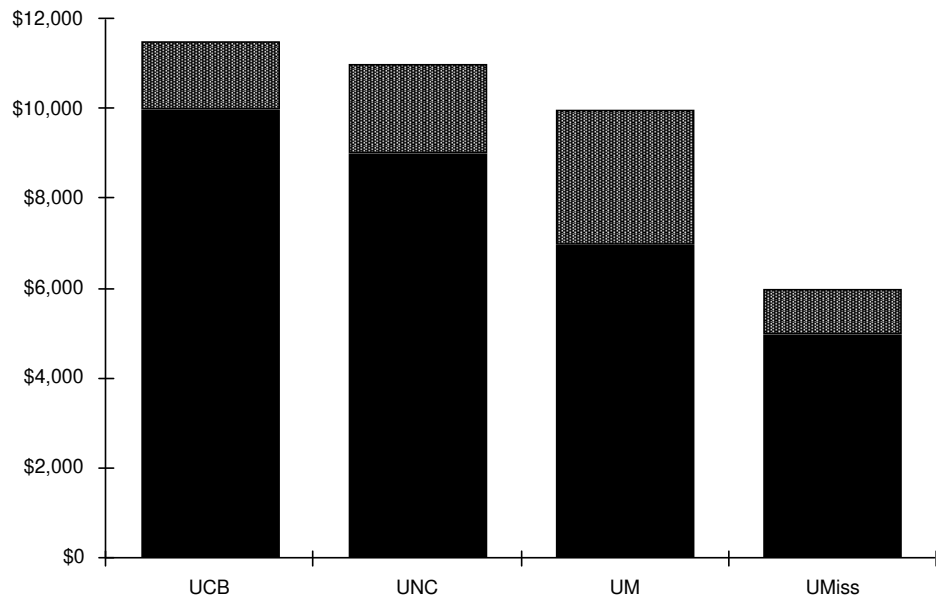
Suppose we compare the total of state support and tuition...

...and then say you get what you pay for...

(problem: This assumes all state support pays for
is instruction...and yet, service and research are
presumably also supported.)

We could take those institutions with similar appropriations
per student...and compare their tuition levels

An Example:



While tuition is only one of a number of income sources to universities, it is the source most directly under control.

Revenue from tuition fits together with other revenues in a carefully balanced structure. When any one source of income fails to keep pace, the share that must be picked up by the other sources is increased.

During the 1970s and 1980s, colleges coped with the inflation in expenses such as heat and health insurance, over which they had little control, by holding the increases in faculty salaries far below the increase in the cost of living. As a result, faculty lost close to 20% of their purchasing power during this period.

What about productivity increases?

Just as one cannot speed up a symphony to make it "more efficient" to produce, so colleges have not been able to speed up the education process. Productivity increases in higher education come in the form of increased learning.

Cannot simply discontinue a program, since certain fields are essential.

Also cannot retrain staff (a French professor cannot be retrained to teach mathematics).

What is the prognosis?

Not very likely to brighten very much unless there are different government spending priorities. Increases in student aid, if the funds could be found, would help significantly in holding down tuitions, which are driven up, in part, to pay for institutionally funded student aid.

It is clear that tuition increases have helped to compensate for the decline in federal student aid.

Note one positive benefit:

College has become too expensive for students to be passive or indifferent about their learning or primarily focused on social life.

Students should be actively involved in their learning so as to make the most productive use of their time.

The Costs of Higher Education

A Perspective

- i) Let's first put tuition in an appropriate perspective...an education at the University of Michigan is one of the greatest bargains in our society.
- ii) The \$3,000 tuition represents less than 1/4 to 1/5 of the actual cost of an education.
- iii) In fact, the cost of a degree at our institutions is only \$10 K to \$12 K... less than the cost of a low-end Chevrolet... ..and yet this investment will be paid off in only a couple of years following graduation because of the very high earning capacity of our graduates.
- iv) In fact, tuition is not the major cost of attending a public university...rather it is room, board, books, travel, and such... the same expenses young adults would have to pay whatever they did...even if they were to stay at home!!!
- v) Further, the financial aid programs of the University guarantee that any Michigan resident unable to meet the cost of tuition room, board, and other expenses will receive financial adequate to allow them to attend the University.
- vi) There is a certain irony here, since one of the principle reasons for the increasing tuition levels is because this revenue provides the funds necessary for our financial aid programs. Indeed, last year, 75% of our tuition increase went right back into financial aid!
In a sense, we ask those who can afford it to pay a somewhat higher fraction of the real costs of their education so that those less fortunate can be provided with the aid they need.
And even for those paying the sticker price are paying only a small fraction of the real cost of their education.
- viii) I should also note that tuition costs in Michigan have not increased as rapidly as they have across the nation over the past decade... nor as rapidly as they have in other midwestern states. Unfortunately, it is also the case that growth in state support of higher education in Michigan has also lagged behind the national and midwest averages, leaving our institutions somewhat at risk.
- vii) Needless to say, attempts to artificially constrain tuition levels will, in the end, not only degrade the quality of education in our

institutions in the face of limited state support. It will also prevent us from providing the financial aid so needed by those from impoverished backgrounds.

- viii) **As I told the Detroit Economics Club, if one wants to pay bargain basement prices for higher education, sooner or later you are going to end up with bargain basement quality...but, quite frankly, I do not believe the people of Michigan will either be satisfied or well-served by a second rate system of higher education!!!**

CPI Index

Why doesn't the CPI apply?

Goods and services measured by CPI are not the same as those of colleges (e.g., books)

Students have been shifting out of lower-cost fields such as education and the social sciences into higher-cost fields such as engineering and computer science.

Colleges have had to make their facilities accessible to handicapped.

CPI measures things like the costs of housing, food, etc.

But suppose you were required to live in a bigger and bigger house each year... then, don't you think that your costs would increase more rapidly?

Well, that is just what is happening in higher education since in many fields, the amount of new knowledge doubles every five years or less.

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 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...

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 for cost increases 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)

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.

Budget Issues

Revenue Side:

Near Term:

Tuition:

Set nonresident tuition at maximum level (8% to 10%)

Set resident UG tuition at negotiated level (6.5%)

Make heavy use of differential tuition (unbundling)

Upperclass Bus, Eng, Pharm

Move toward equilibrating instate and outstate graduate and professional tuitions

Fees:

Include academic programming in Housing fees

(e.g., Harvard: \$1,000 for tutorials)

Including "Diversity Agenda" fees for Housing (counselors, workshops, etc.)

Other possible fees (which do not appear to cover all students...)

State Appropriation:

We get what we get...

Develop some special programs that benefit UM

i) extension of REF

ii) ICR match

iii) state support match on endowed chairs

Indirect Cost Recovery

Might rethink allocation to General Fund

...if we can identify real uses

Note: It is very important to make certain that we are not subsidizing new research space such as MSRB I and II...bring over ICR to do this

Longer Term:

Tuition:

Track nonresident tuition at private marketplace

Equilibrate instate and outstate tuition at graduate and professional school levels

Develop true pricing for instate undergraduate (e.g., work backward from costs to determine appropriate levels--

Outstate - State App = Instate)

Fees:

Debt-financing fee (0.5% increase for each \$10 M bonding)

Academic programming fees in Housing (tutorials, etc.)

Diversity agenda fees

Financial Aid:

Rethink financial aid effort...

Give high priority to outstate financial aid

State Appropriation:

Major effort to raise higher education among agenda of state

Expenditure Side:

Big Question: How do we change the culture?

i) To move units away from the idea that all new programs are add-ons rather than replacements?

ii) To create more incentive for entrepreneurial efforts

(private fund-raising, sponsored research, auxiliary activities)

- iii) Focusing our efforts on our primary missions: teaching and research (rather than becoming a company town...)

Long Term Planning:

We need to complete the evaluation of the first round of strategic planning efforts to develop a long term (5-year) strategy)

Possible Approaches:

- i) VERY IMPORTANT:

The Provost must get into the pattern of saying “no” to most requests (even if he has the \$\$\$), since this encourages units to handle needs themselves.

This is particularly important for one-time funds, since it builds an unrealistic expectation that units can always approach Big Daddy for help.

- ii) The 1% reallocation must continue on an indefinite basis...but might want to add more constraints on how this is to work (e.g., set minimum salary targets)
- iii) Cost-sharing philosophies to force units to determine real priorities
- iv) As units to develop rolling 5-year financial (business) plans which are approved by Provost (a la Harvard)
- v) Resume movement toward ETOB, with the University serving primarily as a “banker” and “financial advisor”
- vi) Do we want to “declare” a period of financial hardship for the next three years (portraying Michigan as going into a recession).

NOTE: We probably had better get ready for this in any event.

- vii) Is there a way to move to a “total quality” approach to greater cost-effectiveness based on a sense of pride and leadership rather than financial exigency?
- viii) Do we want to get serious about reducing the general level of activity of the University?
 - enrollments (It is clear that we need to get these under control...)
 - academic units?
 - other functions

- ix) Unbundling strategies:

- Unbundling distribution
 - Telecommunications
 - Community colleges
 - Summer sessions
- Unbundling products
 - Continuing education (Bus Ad, Eng, Med)
 - Language instruction
 - Other niche markets
- Unbundling pricing
 - School by school, degree by degree
 - Extensive fee system
 - Housing
- Unbundling deployment of labor
 - Faculty: teaching, research, service
 - More flexible job families

Concerns:

- i) In adopting a “Say No” philosophy, this must occur uniformly across both academic and nonacademic units, since otherwise an effective reallocation away from

teaching and research to support and administration will occur.

- ii) HTS's "smaller but better" strategy was a dismal failure...
 - It didn't really save any money.
 - Rather than creating a psychology of prioritization and cost-effectiveness, it instead clobbered the morale of the University community and created a spirit of distrust and cynicism that we are only now beginning to emerge from.
 - Hence we must be VERY careful in using "doom and gloom" scenarios.
- iii) How do we control growth in key units (e.g., Medical Center)?

UM Inputs and Outputs

Inputs:

What is level of support of UM?

UM ranks 40th in resources per student

UM ranks 30th in USN&WR ranking of resource base

UM ranks 9th in reputation

(pretty damn cost-effective...)

Minter Associates ranking as "resources per student: as:

UM: \$16,000

UCB: \$19,000

Cornell: \$30,000

Stanford: \$43,000

What would we use?

GF/FYES = $\$490M/32,000 = \$15,312$

GF+ER+D/FYES = $\$750 M/32,000 = \$23,437$

St App + Tuition/FYES = $\$12,352$

Output Measures:

- i) Enrollments
 - System wide numbers
 - Rank within state
- ii) Degree production
 - Rank within state
 - Rank nationally
 - (Number who stay within state)
- iii) Profession production
 - Number of UGs who become...
 - Engineers
 - Doctors
 - Lawyers
 - MBA's...
- iv) Quality measures
 - Ranking of Schools and Colleges
 - Architecture:
 - Art
 - Bus Ad: 6th (USN&WR)
 - Dentistry: 5th
 - Education: ??
 - Engineering: 6h (USN&WR)
 - Law: 3rd (USNE&WR)
 - Lib Sci: 1st
 - LS&A: 9th (USN&WR)
 - Med: 11th (USN&WR)
 - Music: 3rd
 - Nat Res: ???
 - Nursing: 1st (NIH)
 - Pharmacy: 6th
 - Public Health: 1st
 - Social Work: 1st

Other measures

NAS/NAE/NIM numbers

Major national competitions

Hughes Research Institute

NCSM

NSFnet

URIs

NASA Center of Excellence

v) Economic Impact

Dollars attracted into state

Spinoff companies

Industrial impact

Key to \$5 B automation industry in SE Michigan

vi) Welfare of state

UM Medical Center

UM public service impact

UM cultural impact

UM intercollegiate athletics