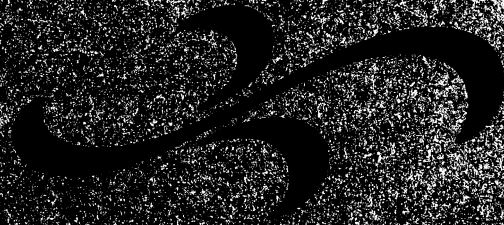


The Cost, Price, and Value of a College Education



**The University of Michigan
James J. Duderstadt, President**

THE COSTS AND VALUES OF A COLLEGE EDUCATION



In recent years many people have raised concerns about the cost of a college education, questioning spiraling tuition, the erosion of federal financial aid, and managerial waste and duplication. Some have even begun to wonder whether a college education is worth the investment. While the cost of college is a subject of great importance, it is also a subject surrounded by as much myth as reality.

Some of the more common myths surrounding the costs of college need to be more closely examined.

Myth: *Tuition levels at most universities—including the University of Michigan—are "out of control."*

Reality: In reality, tuition levels at the University of Michigan—and at most *public* institutions—have been quite low and quite stable for some time. This is a very important point since most attention has been generated by the very high tuition levels at a few highly selective private institutions. It is true that tuition levels at some universities such as Harvard, Stanford, and MIT have soared to \$20,000 per year or more. Even at regional private colleges such as Kalamazoo and Albion, tuition levels now exceed \$14,000 per year. In sharp contrast, however, the in-state tuition levels at major public universities, including the University of Michigan, have remained modest over the decades of the 1970s and 1980s, amounting to less than 25 percent that of private tuition levels.

Myth: *Tuition levels at the University of Michigan are high relative to other institutions.*

Reality: Tuition levels at the University of Michigan—and at Michigan's other *public* institutions—are fairly low and comparable to those of most other public universities throughout the nation. The roughly \$3,000 to \$5,500 per year of annual tuition fees charged to resident undergraduates enrolling in Michigan's public universities represents a bargain when compared to all other alternatives: public or private colleges and universities across the nation. For example, Michigan students face far higher tuition levels at peer public institutions such as the University of California at Berkeley or the University of North Carolina since they would be assessed non-resident tuition levels in the range of \$9,000 to \$13,000 per year. At private institutions such as Kalamazoo, Albion, and Hope colleges, tuitions fall in the \$13,000 to \$17,000 range. Tuition now exceeds \$20,000 per year at many selective institutions, including Harvard, Yale, and Princeton.

Myth: *Increasing tuition levels at the University of Michigan are pricing it out of reach of all but the very wealthy.*

Reality: Again, this statement is incorrect. In fact, a college education today is probably more affordable to more Americans than at any period in our history. This is due in part to the availability of effective financial aid programs based primarily on need.

For example, University of Michigan policy has long guaranteed all Michigan residents enrolling in the University adequate financial aid to meet their needs until graduation. Roughly 60 percent of UM students receive some form of financial aid. This amounted to more than \$210 million last year in the form of grants, loans, and work-study support during the past year.

Perhaps a better way to look at this is to contrast the publicized (or “sticker price”) tuition with the average actual “net” tuition, calculated by subtracting out University financial aid. For Michigan resident undergraduates, the “sticker price” tuition in 1994-95 was \$5,500. On average, the University provided \$1,650 of scholarship aid and another \$1,950 in work-study-loan aid from centrally administered accounts. As a result, the average “discounted” tuition paid by Michigan resident undergraduates was \$1,900.

“Sticker Price” Tuition for 1994–95:	\$5,500
– Average scholarship aid	\$1,650
– Average work-study/loan aid	<u>\$1,950</u>
“Discounted” Average Tuition	\$1,900

Even this estimate is conservative, since the University provides extensive financial aid through its individual schools and colleges in addition to centrally administered programs.

Carrying out a similar analysis for the past decade, it is clear that strong financial aid programs have kept the actual tuition paid by most undergraduates quite low throughout the 1980s. If constant rather than current dollars are used, the “average net tuition” paid by resident undergraduates has actually *dropped* since the 1980s because of strong financial aid programs.

There is a certain irony here. As state and federal support of financial aid has deteriorated, tuition revenue has become one of the primary sources of funds necessary to sustain higher education. Public universities, just as private universities, have asked more affluent families to pay a little more of the true cost of education for their students in order to provide less fortunate students with the opportunity to attend. In this sense, all students at all universities, public and private, are heavily subsidized by both public and private funds. When public tax support for higher education wanes and becomes inadequate to provide broad access to quality education, then tuition serves, in effect, as a surrogate and highly progressive “tax” on those with the capacity to

pay more than their fair share of the costs so that those less fortunate are not denied access.

The University of Michigan remains committed to the broadest possible access, to the basic philosophy of "providing an uncommon education for the common man." However, in the face of eroding tax support, this access is increasingly provided through strong institutional financial aid programs. Tuition has become a surrogate tax. Those who in the past would have been supporting the University through strong tax support today are being asked to provide this support through tuition payments instead.

Myth: *Tuition rates are increasing faster than the Consumer Price Index, indicating that universities are inefficient and are exploiting the marketplace.*

Reality: One of the frustrating facts of life about modern economics is that the value of the dollar is not constant; it is continually eroding over time through the effects of inflation. Consequently, the price of essentially everything in our society increases from year to year, reflecting the fact that the dollar has less value. It would be unrealistic to expect that tuition—or the price of a car, groceries, or anything else—would remain constant from year to year (unless, of course, costs held steady or actually declined, which they almost never do).

When considering various ways to measure increases in costs, it is important to identify the appropriate index that measures cost increases on a national basis. The most common cost indicator is the Consumer Price Index (CPI), which is designed to measure the cost-of-living increase for urban wage and salary earners. This index measures the increase in costs of meeting fundamental needs, including housing, food, and clothing.

The CPI marketbasket does not reflect the kinds of goods that a university typically purchases. Instead, our institutions must fill our shopping baskets with Apples (computers)—not apples (fruit). We also must hire top-flight faculty, equip labs with sophisticated scientific instruments, and acquire specialized journals to sustain the scholarship in our institutions. Our instructional programs must evolve to reflect a rapidly expanding knowledge base in most fields. To take into account the different needs of higher education, an alternative cost index known as the Higher Education Price Index (HEPI) has been

developed. Over time, the true costs of higher education tend to track the HEPI rather than the CPI. For at least a decade, the HEPI has been increasing at a rate of roughly 1 to 2 percentage points faster each year than the CPI.

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

Reality: Nationwide, it is clear that money invested in a college education results in one of the highest returns of any investment a student or a family can make. College graduates will earn roughly three times as much during their lifetimes as high school graduates. Across all fields, the net return (after tax) of an undergraduate education is estimated to exceed 10 percent per year. In knowledge-intensive professions such as medicine, law, and engineering, the rate of return is far higher.

THE REAL ISSUES

In reality, there are two issues relating to the cost of a college education with which we should be concerned:

1. First, we must understand the relationship between :

what it **costs** a university to operate

the **price a student actually pays**

the **value** received by students through this education

2. The second set of issues concern who should pay for a college education:

- Parents?
- Students (through loans, deferred payments and work-study programs)?
- State taxpayers?
- Federal taxpayers?
- Private philanthropy from industry, foundations, alumni, and friends?
- The ultimate consumer (business, industry, or government)?

Someone has to pay for higher education. Much of the debate surrounding the costs of education really is about who should pay.

THE OPERATING COSTS OF A UNIVERSITY

A number of factors drive the costs of a college education: salaries paid to faculty and staff; costs of building and maintaining instructional facilities; infrastructure costs, such as libraries, computer centers, and laboratories; and costs of various support and administrative services. Costs of a college education are increasing for a number of reasons:

1. Colleges are both labor- and energy-intensive operations; these are the costs that have increased most rapidly over the past two decades. In addition, colleges must compete in a professional labor market, which always sees costs increasing somewhat more rapidly than the CPI. The more selective colleges also face an intensely competitive marketplace as they compete for the best faculty, the best students, and the resources to fund their activities from the federal government and the private sector.
2. The goods and services needed by higher education also have been characterized by rapid price increases. For example, the costs of books and periodicals rose by roughly 130 per cent during the 1980s. Supplies and materials also increased by roughly 70 percent, and services provided by outside contractors increased by 90 percent. Add to this the rapidly escalating costs of sophisticated technology such as computers, laboratory equipment, and medical equipment, and it is clear that higher education is particularly sensitive to rapidly increasing costs.
3. There was a sharp erosion in federal financial aid programs, which dropped in real terms by roughly 40 percent during the 1980s. Colleges have coped with this steep decline in student financial aid by investing more institutional funding into financial aid support. They have raised this extra money by cutting other costs, increasing fund raising, and, of course, by increasing tuition.
4. Because of their wide array of activities, universities are particularly vulnerable to cost increases driven by state and federal regulations in areas such as Occupational Safety and Health Administration and Americans with Disability Act requirements, and financial and audit controls.
5. Social commitments: Most universities have undertaken a series of initiatives to respond to the needs of society across a wide range of fronts, including affirmative action, economic development, and K-12 education.

One of the main reasons for the rising costs of education is that as the knowledge base expands, universities must expand and shift their activities and investments. In many fields we are finding the amount of new knowledge doubles every few years, and we must reflect this in our education. The images of a college education are no longer those of a student listening to a professor lecture. It is more accurate to envision a student using a sophisticated computer to simulate the dynamics of a spacecraft or participating in a complex surgical procedure using state-of-the-art equipment.

In fields such as engineering, medicine, chemistry, and public health the knowledge base is exploding. The costs associated with the infrastructure necessary for education in many of these fields, such as computers, laboratory instrumentation, and medical devices, all necessary for the education and training of tomorrow's professionals, also have escalated dramatically. It is understandable that since both the amount and the nature of education provided to students moving into the professions are changing dramatically, the cost of education will reflect these changes.

THE PRICE PAID BY STUDENTS

A variety of factors determine the total price of a college education for students and their parents: the tuition charged for instruction, room and board, the cost of books, travel, and other incidental expenses. The most immediate concern here is the cost of tuition itself, since this represents the **price** that the institution charges for the education it provides.

At the outset, it must be recognized that no student pays the full cost of a college education. **All** students at **all** universities are subsidized to some degree in meeting the costs of their education through the use of public and private funds. For example, through the use of private gifts and income on endowment, many private institutions are able to set tuition levels (prices) at one-half or one-third of the true cost of the education. Public institutions manage to discount tuition "prices" even further to truly nominal levels—to 10 percent or less of the real cost—through public tax support and financial aid programs.

The 1994-95 resident undergraduate tuition of \$5,500 represents 30 percent of the roughly \$18,000 it costs to educate a student for one year. As we

indicated earlier in this document, when this tuition is discounted by the financial aid programs available to instate students, the true average tuition is only about \$1,900!

Out-of-state students, paying much larger tuitions of \$16,500 per year, are paying about 90 percent of the cost of their education. The remainder is provided through private giving.

Determining tuition rates involves a complex set of considerations including:

- the actual costs of instruction at the institution
- the availability of other revenue sources that can be used to subsidize instructional costs (tax support, private giving, and income from endowment)
- competition with other institutions
- political factors

These factors can be woven together in the determination of tuition levels in several ways:

Traditionally, tuition levels have been determined by:

1. First, estimating the operating costs for the academic programs of the institution
2. Next, estimating the available revenue from other sources such as state appropriation, federal support, interest income, and private giving
3. And finally, determining that level of tuition necessary to make up the difference between projected operating costs and available income from other sources

As a research-intensive university, the University of Michigan has generally experienced cost increases of 2 percent above the CPI. For purposes of this narrative, let us assume a CPI of 4 percent for 1995–96 so that our projected cost increase would be 6 percent.

A particular case in point would be provided by how the tuition level for the University of Michigan might be determined for next year in the face of a proposed cost increase of 6 percent. That means that if we were to do all of the things next year that we are doing this year—educate the same number of students, maintain the same number of programs, and support the same number of faculty and staff, we would have to achieve an increase in total revenue of 6 percent. If we assume, for example, that our state appropriation increases by only 3 percent and assume further, as is presently the case, that tuition revenue, when financial aid is netted out, is roughly comparable to state appropriation, then a 9 percent increase in tuition would be necessary to achieve the 6 percent total revenue increase target.

Of course, there are other factors that can artificially constrain tuition. For example, market forces constrain non-resident tuition levels to levels characterizing peer private institutions. Further, while there are not strong market pressures on resident tuitions because of their relatively low levels, political factors such as public opinion and government intervention also often constrain tuition levels.

Using this model, tuition is related to the costs of conducting the activities of the University and the resources available. Revenue from tuition fits together with other revenues in a carefully balanced structure. When any one source of income falls behind, other sources must take up the slack. In fact, the erosion of support from other sources, especially falling state appropriations and reductions in financial aid, has driven increases in tuition rates.

The availability of state appropriation and the responsibilities characterizing public institutions suggest a somewhat different way to set tuition levels for these institutions. For example:

Suppose that the real cost of a Michigan undergraduate education is roughly \$18,000 per year. Further, let us assume that the State of Michigan earmarks roughly 60 percent of its appropriation of \$280 million for the support of undergraduate instruction, with the remainder going to graduate and professional education, research, and public service. This would provide state support for undergraduate education at a level of roughly \$168 million. At \$18,000 per student, the state would be entitled to 9,000 *fully funded* undergraduate student positions. However, the University can offer the state a “discount” price by taking into account in-state tuition, say at the current level of \$5,500. That means that the actual cost to the state would be \$18,000

minus \$5,500 which equals \$12,500. Hence, at this reduced price, the state funding of \$168 million divided by \$12,500 would support 13,000 undergraduate student positions.

In fact, the University of Michigan currently educates 15,479 resident undergraduates. From this perspective, the State of Michigan is not paying its fair share of the full costs of a Michigan education. To put it another way, for the State to really be able to afford this many resident undergraduate student positions, one would be forced to readjust the tuition charge for resident undergraduates to more than \$7,000.

Using this approach to set tuition, one first sets the number of Michigan resident students by “selling” the State undergraduate positions at the actual costs discounted by tuition.

A similar calculation can be applied to determine the relationship between tuition and enrollment levels for non-resident students. Here one would take into account the current State policy that tax dollars paid by Michigan citizens would not be used to subsidize the educational costs of non-Michigan residents. That is, the University would be required to operate as a private institution as far as non-Michigan residents are concerned. From this perspective, tuition costs for non-resident students at the University of Michigan would be set at a rate comparable to those at private universities across the nation.

So far we have considered only “cost-driven models” for setting tuition. This has been the most common approach used in higher education for many years. However, there is an alternative approach in which one first determines available revenue—first setting tuition at some reasonable amount reflecting market demand—and then requires that operating costs not exceed the dollars available. This “revenue-driven” model assumes that the variables that can be adjusted are not tuition or other revenue sources (e.g., prices) but rather institutional characteristics such as: 1) enrollment, 2) program quality, and 3) program breadth and diversity. Such an approach generally assumes that the institution is able to cut costs.

While such revenue-driven models are most appropriate for the private sector where price is truly determined by the marketplace, they may be not quite as adaptable for higher education where the marketplace is rarely allowed to operate in a free fashion to determine tuition levels. Indeed, if it

were allowed to do so, tuition levels at the most selective private institutions would be far higher than even their present levels.

Furthermore, there are constraints on the internal actions an institution can take to control costs. These include the impact of tenure on the institution's capacity to reduce faculty size, political pressures to maintain enrollment levels and program breadth, and the fact that most institutions are already operating at the margin in terms of cost reduction. In fact--and ironically--frequently the only unconstrained variable that one can adjust is quality. Efforts to reduce costs to stay within a given budget can sometimes only be achieved by accepting lower quality standards. In sharp contrast to the business sector, revenue-driven models of higher education could well lead to significant erosion in program quality.

Finally, it must be noted that such revenue-driven models simply may not be applicable to public institutions such as the University of Michigan. In these institutions, tuition levels are set by political factors—not by actual cost, level of state appropriation, or by market. For example, we have seen that determining tuition levels by discounting actual costs by the amount received in state appropriations would yield resident tuition levels at the University of more than \$7,000 per year, significantly higher than their present level of \$5,500.

As we have noted, the University remains committed to providing access to a quality education for all students with the ability to succeed. However, the capacity to honor this commitment has shifted from adequate public support through tax revenues to the use of strong financial aid programs, sustained in part by somewhat higher tuition levels.

THE VALUE OF AN EDUCATION

Nationwide the money invested in a college education results in one of the highest returns of any investment a student or family can make. It is estimated that the lifetime earnings of a person with a college degree is about three times that of a person without this education—\$1.5 million vs. \$500,000. Across all fields the net after-tax rate of return of an undergraduate education is in excess of 10 percent.

Another way to look at this is to note that the typical Michigan undergraduate will spend roughly \$200 per day during his or her enrollment for a baccalaure-

ate degree. Earning capacity, due in large measure to this degree, will be, on the average, \$2,000 per day for every day spent in college—a factor of ten times larger!

Furthermore, there is strong evidence to suggest that the lifetime earnings are considerably higher for graduates of more selective and prestigious institutions—perhaps as much as \$500,000 on the average. And of course, the earnings in knowledge-intensive professions such as engineering, medicine, and law are far higher.

This gap between the earning capacity of college graduates and others in our society appears to be widening. But this is to be expected in a society that is becoming ever more knowledge-intensive, and therefore more dependent upon college graduates and the knowledge they possess.

For the sake of brevity, I will not try to discuss the countless intangible benefits of a college education: a deeper comprehension of the world and its peoples; perceptions into how our own culture developed and its place in the world; the disposition to question, to think logically and critically; a deeper understanding and enjoyment of literature and the arts; the development of new skills, abilities, and understanding; and the desire to make all of life a learning experience. These benefits will continue to improve and enhance the quality of our graduates' lives long after Commencement. To many people, this growth and enrichment is of far greater worth than the financial advantages provided by a college education.

WHO SHOULD PAY FOR A COLLEGE EDUCATION

Traditionally, we have depended upon a “pay-as-you-go” approach to higher education. That is, most students—or their parents—have paid tuition on a term-by-term basis as they receive their education. And yet, as the cost, value, and price of education have risen, this traditional approach has become more and more difficult.

Perhaps it is time that we looked at a college education not as a temporary additional expense or consumer product but rather as a major investment, similar to those we make for other important goals in our lives—a house, a car, or a retirement nestegg. For most people, a college education has more value than any of these other objectives. In this spirit, then, it seems useful to examine several alternative strategies for financing a college education.

As we have noted, the traditional approach has been to view a college education as a temporary additional expense for a family (or a student), to be paid for by tightening the family budget, and perhaps relying on additional resources through part-time student employment. In fact, “working one’s way through college” has been a very important and very American tradition.

Unfortunately, the rising costs of a college education, coupled with the eroding public support of higher education, have made the pay-as-you-go approach increasingly problematic. Clearly the costs of a college education at a private institution—typically ranging from \$15,000 to \$25,000 per year—cannot be accommodated within most family budgets. Even at public universities, where the costs range from \$8,000 to \$12,000 per year, financing a college education becomes a significant burden.

Students have more difficulty working their way through college these days because wages for most student employment have not kept pace with the rising costs of education. “Work-study” programs, in which the work experience also has educational benefit, are still important. However, the minimum-wage type of employment available to most students is no longer an effective way to pay for college.

Cooperative education is a term used to refer to programs in which students alternate between full-time study and full-time work. These programs have played important roles in certain institutions (e.g., the General Motors Institute and Northeastern University) and programs. For example, beginning in their sophomore year, engineering students at the University of Michigan can choose to participate in a cooperative program with industry in which they will alternate between two terms of study and one term of employment with a particular company or government agency. The employment experiences are carefully designed to serve as an important component of the educational program, becoming increasingly more challenging as the student’s academic program progresses. In practice, the compensation earned during the work period is at market rates for experienced professionals and sufficient to cover a very major part of the cost of the student’s education. The cooperative programs typically add one additional year to the length of the baccalaureate degree program.

Such cooperative programs are very attractive, not only as a mechanism to assist the student in supporting the costs of his or her education but also as a way to enhance the quality of the educational experience. Unfortunately, however, they are generally only feasible in those high demand areas such as

engineering where students develop technical competence early in their studies and are of significant value to employers.

The Reserve Officers Training Corps also provides a “co-op” style financial aid program for students willing to commit to future military service.

“Saving for a college education” has always been one of the professed goals—and responsibilities—of the American family. Yet very few parents manage to save more than token amounts toward this end. In fact, this inability to save may be one of the big factors driving public concerns about the rising costs of a college education.

For that reason, there has been great interest in the development of more formal programs to assist families to adopt a more systematic and disciplined approach to setting aside the resources necessary to educate their children. Such plans are available in both the public and private sector and range from pre-paid tuition plans to guaranteed tuition plans.

For some time many institutions have provided families with mechanisms to prepay tuition costs at the time of enrollment, thereby avoiding concerns about rising tuition levels during the actual time spent in college. While these are occasionally financed by the institutions themselves, more frequently arrangements are made with commercial organizations. The general idea is that one pays either a lump sum or a set of installments at a fixed rate throughout the period of education. The interest earned on the payments then covers rising tuition costs.

More recently, a number of states have developed similar pre-paid tuition plans in which a family can purchase “tuition futures,” tuition credits at today’s prices redeemable at any future date. For example, a family would use either lump sum or installment payments to purchase a contract for a four-year college education at present prices, and then this contract would allow the child to attend at any time in the future, regardless of tuition levels at that time. Again, the premise behind such programs is that the rate of increase in tuition is roughly comparable to the interest earned on the pre-payments.

The State of Michigan has taken a somewhat different approach known as the Michigan Education Trust (MET). As with other pre-payment plans, MET contracts could be purchased to cover future costs of a college education. However, in an effort to gain early acceptance, the contracts were initially

underpriced at unrealistically low levels corresponding to 60 percent to 70 percent of present tuition levels, thereby acquiring a certain bargain-basement flavor while building up a significant liability. Although it was billed as a "guaranteed" plan, the Legislature did not accept financial responsibility for the program. Because of these flaws, Michigan suspended the sale of MET contracts after one year in favor of more financially viable approaches, including the education savings bond plan. No other state has adopted the MET model.

In the fall of 1995, the State of Michigan experimentally reopened the Michigan Educational Trust for a short period to see if there was interest in a more realistic program. This new investment plan costs more, and it does not guarantee the coverage of future college tuition bills. At the time of this writing, it is still being evaluated.

Yet another long tradition of American higher education has been the use of private gifts, including income on endowment, to provide student financial aid. Since this support has generally been provided by alumni, it represents an effort by members of one generation to provide the next with the same opportunities that they enjoyed. While some colleges have attempted to formalize this "generational responsibility" by asking all scholarship recipients to sign statements acknowledging their moral obligation to repay the support at a later time through private giving, these approaches have enjoyed only limited success. Private support of financial aid, while very important, continues to be a voluntary and rather random phenomenon.

Traditionally we have looked at a college education as a consumer good, requiring payment of the costs of tuition, room, board, and other expenses upon enrollment. Since these costs frequently exceed the resources that most students or families can generate during the actual period of enrollment, either savings or loan plans must play an increasingly important role in the future.

With this in mind, Peter Drucker has suggested that we really should think about financing college educations in a much different way:

"The basic problem of American higher education is that traditionally it has been priced no differently from the way food, soap, or shoes are priced. Customers pay in full when they take delivery of the merchandise. But a college education is not a consumer good that will be used up and gone

within a short time. It is a long-term investment in the lifetime earning power of the graduate.”

To the degree that a college education is, in reality, a long-term investment in the future, perhaps we should look at it as we would other major investments we make in our life. For example, we borrow money to buy an automobile and a house, and pay off these loans over long periods of time, even as we enjoy the purchase. A college education improves one's quality of life and earning capacity, thereby enabling the borrower to pay off the loan.

Drucker proposes shifting the payment for a college education from the “front end,” when most students have no money and next-to-no earning power, to a later period when their incomes are sizable and rapidly rising. In particular, those students choosing to pay “later” rather than “now” would agree to have the installments paid through payroll deduction. They also would be required to take out 20-year term-life insurance for the amount of the outstanding liability; premiums for such insurance at age 22 are minimal.

With these steps, the repayment claim for the investment made by the college in the future earning power of the student becomes an eminently salable security, bearing little risk and a fair rate of return. The college could be sure of being paid. The former student, now a wage earner, could easily carry the annual payment. The graduate's family would have little or no financial burden at all; colleges could charge what they need to build faculty and curriculum and still not price themselves out of the market.

To carry this one step further, perhaps, as a society, we should look upon a college education as we do our social security system. Perhaps we should restructure federal student loan programs to facilitate payment through payroll deduction, just as we do payment for social security programs. An alternative would be to use tax assessment strategies, using the Internal Revenue Service as the collection agency.

Such approaches would require a major change in public attitudes toward the value of a college education. But in a knowledge-based society, perhaps one's personal investment in education has become as important an investment as investing in one's security during old age.

Without significant reform of our nation's college financing system, the steady enrollment gains of low- and middle-income Americans may well peak far

short of those students' rightful representation on our college and university campuses. Over the past fifteen years, strong financial aid programs mounted by colleges and universities have resulted in campus populations being more ethnically and socially diverse than ever before. But demand for these resources is rapidly outpacing what institutions can provide.

Ironically, much of the increase in enrollment among low-income and minority students has occurred during a decade of declining public support for higher education, evidenced at all levels of federal, state, and local government. No single action is to blame. Rather, the past two decades have seen a gradual erosion in the fundamental principle of public education: since society as a whole benefits from educating our citizens, the costs of such education should be supported primarily through general tax revenues. Instead, today both the public and our elected representatives have come to view a college education as just another consumer purchase that should be paid for through user fees—i.e., tuition—by those who benefit most directly, rather than viewing it as a long-term investment in human potential and the future of our nation that merits strong public support.

This erosion in public support has shifted even more responsibility to parents for meeting the costs of a college education in public and private institutions. During much of the post-war period, this additional burden could be assumed by families since the growth in their incomes generally met or exceeded the growth in the costs of higher education. However, the capacity of families to afford a college education deteriorated as the growth in family income began to slow in the 1980s, and the financial burden of a college education continued to grow, both due to real cost increases and cost-shifting from both state and federal governments.

Students and parents were also caught by a significant shift in the nature of federal financial aid programs. In 1979, two-thirds of federal assistance to students came in the form of grants and work-study jobs, with the remaining third in the form of subsidized loans. Today, the reverse is true: grants typically comprise only one-third of a student's federal aid award, and the remaining two-thirds is extended in the form of loans.

Over the long term, we must renew and affirm our commitment to the ideal of publicly supported higher education. In the short term, one way to ease the financial burden on students and families is to create a more cost-effective and efficient system for delivering the federal funds we already have.

Currently, U.S. taxpayers pump billions of dollars each year into the Family Federal Education Loan Program (formerly the Guaranteed Student Loan or Stafford Loan Program) to cover administrative fees, commercial bank interest subsidies, and defaults. According to government projections, the costs associated with running federal student loan programs through the roughly 7,000 commercial lenders, more than 50 secondary markets, and 41 guaranteed agencies amount to almost \$9 billion more in taxpayer subsidies over five years than would be spent for a fully implemented direct loan program. This doesn't take into consideration the massive bureaucracy and paperwork imposed on students and their families through the guaranteed loan system.

Little wonder, then, that many in both higher education and the federal government have called for a restructuring of federal loan programs to eliminate the costs and bureaucracy of using commercial middlemen by moving to a direct lending system. Under the 1992 Higher Education Act, a direct lending program was developed to allow students to receive their education loan funds directly from the federal government via their colleges and universities. It was expanded in 1993, and the UM is among the first 104 institutions completing the first actual year of direct lending. In the 1994–95 academic year, the Office of Financial Aid loaned more than \$70 million to approximately 11,000 parents and students, and it expects to loan approximately \$75 million to 12,000 borrowers in 1995–96. Direct lending saves students, taxpayers, and universities time and money. However, the lenders, guaranty agencies, and secondary markets that profited from the way federal student loan programs used to operate are mounting a strong campaign to curtail or do away altogether with direct lending to students.

Far more than an accounting overhaul, direct lending represents a wholesale revolution in the way we finance higher education in this country. It represents perhaps the most equitable and cost-effective way in which to expand access of opportunity to every citizen. As its name implies, direct lending replaces the guaranteed loan system with successful components of past student aid initiatives: a single application form, a single lender and streamlined repayment options. By eliminating private lenders and guarantee agencies, the federal government has fewer entities to audit, substantially enhancing its ability to oversee student loan operations and improve accountability.

Equally important, direct federal administration of student loans would allow a system in which repayment rates could be based on future income and repayments collected through income tax withholding, an innovation that

capitalizes on the fact that the value of a college education, expressed in projected earnings, has increased considerably faster than its costs, largely due to the increasing technological demands of the workplace. Like the national service initiative launched by the Clinton administration, income-contingent loan repayment would ease the debt burden on college graduates, perhaps encouraging them to seek employment in fields of urgent national need such as teaching, public health, and community development.

The option of linking repayment to income is likely not only to discourage default but also to open the doors to community service as either a short- or long-term career choice or as a direct form of service in lieu of repayment. In any scenario, a combination of direct lending with income-contingent repayment is likely to restore the ability of many graduates to make meaningful life choices based fundamentally on interest and conviction rather than job security and self-protection.

IN CONCLUSION

The system of higher education in the United States is regarded as the best in the world. But having high-quality universities means little if our own people cannot attend them or if the quality of life that a college education promises, for the individual and for the nation, remains unattainable. It is in our national interest to provide educational opportunity to all with the ability and the will to learn. Many believe that it is time to halt the erosion in public support of higher education and once again reaffirm the commitment from one generation to the next that has characterized our nation. Yet, for the moment, perhaps the most pragmatic approach is direct lending, eliminating unnecessary costs and bureaucracy, and moving to income-dependent repayment to better align costs with the value added while dramatically reducing default rates.

As stewards of the public trust, we in higher education share with federal and state leaders the responsibility to find a better way to deliver educational and financial resources to the people who need them. Among the economic and social challenges facing the Clinton Administration and the 104th Congress, few have farther reaching consequences than enabling tens of thousands of citizens to realize their dreams through a college education.

In a very real sense, society has entrusted to its universities 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.

We also must remain staunch guardians of the quality of our institutions. For in education, as in every other aspect of American life, quality will be the key to our future. We need to give our children the best education and the best chance for the future that we can. We should be willing to pass to them what we ourselves have received: an opportunity for a better life. 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 our state—and our nation—both demand and deserve nothing less!

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 has developed one of the finest systems of higher education in the world. But we also remember this has 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 many of us with unsurpassed educational opportunities.

We have inherited these marvelous institutions because of the commitments and sacrifices of previous generations. It is our obligation as responsible stewards—and as responsible parents—to sustain these institutions to serve our children and our 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 in the future of our state and our nation.

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