

Video 3

AAU Meeting

One of the interesting benefits of attending a conference with other universities is learning not only about the challenges they are facing...but learning as well their perspective of your own institution.

During the past three days in Washington I heard a good deal of doom and gloom
...the tragic decimation of support of UC...
...with tuitions increasing over 60% in past 2 years
...the budget cuts faced by most publics
...the staggering deficits faced by the leading privates
...from Harvard to Yale to Stanford

Yet, ironically, I heard nothing by envy and admiration for the University of Michigan...indeed, in many ways, we are regarded as a model for both public and private higher education.

It is general knowledge that the UM lost over one-third of its historic level of state support during the 1980s
...to the point today in which the state pays only 12% of our operating costs.

And yet, the University has come through this economic storm stronger than ever...
...USN&W Rankings last month...all programs in top 10
...in the good news almost daily
...whether yesterday's NYT article on gene therapy
...or a WSJ article on the Fab Five

Time article:

"Great research-oriented universities like Harvard and Michigan, the pride of higher learning in America, will probably stay at world-class levels."

In many ways we are indeed the "pride of higher learning in America"...the model for other universities...

Because we have learned how to come together to
...to face challenges
...to make difficult decisions
...to take necessary but sometimes painful actions
...to turn adversity into opportunity

This, too, is part of the character of this great university.

Changes in University Financing

Yet while the spirit of the maize and blue is as strong as ever, there are some very important changes in another aspect of your University.

When most of you attended UM, state taxes paid 80% of the cost of your education. Today the state pays less than 25% of the tab for Michigan residents
...and, of course, nothing for students from out of state.

Indeed, in the past two decades, the State of Michigan has fallen from from 6th to 37th place in state funding for higher education.

Real Premise: Because of the limited will and capacity to support higher education, in the face of a weakened economy and other social needs, the state will at best be able to support higher education at the level of a comprehensive four year college (e.g., the "EMU level"). Further, political pressures will make it increasingly difficult to prioritize limited state support for flagship institutions like UM and MSU and instead drive a leveling process in which the state appropriation per student equalizes across the state.

And, while federal support has increased for research,

federal support for student financial aid has all but disappeared except for the most severely underprivileged because of the near silent but historic shift of public policy in which education has come to be regarded as just another consumer item rather than as an essential investment in our country's future.

This has forced us along with most other public institutions to rely increasingly on tuition for revenue.

In fact, as many of you know we made history two years ago (not the kind we prefer to make)

When, for the first time in our history, tuition revenue exceeded our state appropriation. our state appropriation as a percentage of our budget.

Ironically enough, in that same year, again for the first time federal support exceeded state support as well.

In a strange sense, two years ago Michigan became the first of ...the great public universities to become privately financed ...and the first of

...the great state universities to become federally financed

More specifically, state support has fallen to the point today where the revenue portfolio for the University's academic programs is now

...25% state appropriation

...30% tuition and fees

...30% federal support

...15% private support and income on endowment

In one sense this is a somewhat better balanced portfolio than the 80% state, 20% tuition and other...balance of your times

But, unfortunately, it has arisen more from the erosion of state support than from growth in the other areas.

So, what to do?

What to do?

In this brave new fiscal world, the University has had to face up to some difficult realities.

A business as usual approach would not do.

We will have to compensate, rebalance our resources.

We have already begun to put our management house in order.

We have been aggressively pursuing very difficult reforms of "corporate culture"--reducing costs and improving quality, productivity, efficiency, service orientation implementing a massive program of "total quality management" throughout the institution.

And thanks to Farris Womack's leadership and the wise counsel of some of you in this room, our investment and management performance have improved dramatically.

The leadership team and the processes we have put in place will, as Bo might put it, keep us "lean and mean" for the long term.

In the opinion of many, there is no better structured or deployed university -- no stronger University--in America today.

Michigan today has unique vision to contribute to a long overdue national renaissance. Michigan, more than any other institution has what it takes to lead the way.

Key Challenge for 1990s

We believe the coming decade will be a critical turning point not only for higher education in America, but for the University of Michigan in particular.

True we face a period as challenging as any in our history, as the past week has demonstrated.

But paradoxically, these are also times
that present the most extraordinary opportunity
for us to renew our mission of leadership
and to make critically needed contributions
to our state, the nation and, indeed, the world.
As Alfred Lord Whitehead has said,
"The great ages are unstable ages."
But to play our destined role,
to sustain our academic leadership,
to renew our academic and service mission
to meet the challenges of a new age,
to be faithful stewards of the exceptional trust placed in us,
to seize the day,
it has become essential that we raise
private funding on a scale
unprecedented for a public institution.
We must build up the 4th leg of support...
to a level comparable to our other sources of support.
More specifically, we have set a goal for 1990s
of doubling our annual gifts
...from their present level of \$95 M/y to
\$200 M per year by 2000
...and building our endowment from its
present level of \$500 M to \$2 B
Ambitious? Perhaps.
But it also is clear that we have no choice if
we are to sustain the quality and accessibility
of this great institution.

Campaign for the 1990s

How can we do this?
We asked ourselves this question
and we asked you, too.
The answer was clear and unanimous...
...the only way to build the level of excitement
and commitment necessary to achieve this
goal was to mount the largest fund-raising
campaign in the University's history
...indeed, in the history of public higher education!
We have approached the Campaign in a typical Michigan spirit
...with vision, boldness, and commitment
Like most campaigns, this one will focus on the support of
...people
...facilities
.. programs
through contributions to
...expendable funds
...endowment
...and the support of facilities
But, unlike our earlier campaigns,
this will be an all unit, all funds campaign
...in which all components of the University will participate
...and all contributions to the University during the Campaign
period will be counted.

The Controversy

I'm sure I don't have to tell you that
in higher education is experiencing
a torrent of criticism these days.
...from parents and students
...from Governors and State legislatures
...from Congress and Government bureaucrats
...from the media and the public at large

We have been accused of being
 ...big, self-centered, and greedy...
 ...with spoiled, misbehaving students
 ...and even more spoiled faculty
 ...plagued by a long list of "isms" ...
 ...racism, sexism, elitism...extremism
 ...of scandals in intercollegiate athletics
 ...and even for the deterioration of intellectual values
 ...scientific fraud
 ...political correctness
 ...lack of concern for UG education
 ...gouging parents with high tuition
 ...and the government with inappropriate charges for research

Such scathing attacks on the American university
 are of rather recent origin.
 Throughout most of its history academia rarely
 had to deal with public attention, much less criticism.
 Historically, probably due to our medieval religious origins,
 universities over the centuries kept about them
 an aura of the sacred, a sense of being set apart
 from the fray of ordinary life.
 Universities were accepted and respected by society,
 at least when it gave our institutions any thought at all,
 which frankly was not all that often.
 The seeming paradox today is that the extraordinary
 broad public attention and criticism of academia comes
 at a time when the university is more deeply engaged in society,
 a more critical actor affecting our economy, our culture,
 and our well being than ever before.

Tuition Finale

Let me summarize several key points...

First, it seems clear that the U of M has done an extraordinary
 job of providing quality education at affordable
 prices in the face of a tragic erosion in state
 support which has seen our state fall from among
 the nation's leaders to among the bottom of the
 states in its support of higher education over
 the past two decades.

A comparison of tuition rates and quality rankings
 makes it apparent that there is no university in
 America today which offers a higher quality
 education at lower cost than does the
 University of Michigan.

Indeed, while essentially all of the programs offered
 by the University--undergraduate, graduate, and
 professional--rank among the nation's leaders,
 the actual costs of these programs fall far below
 those of peer institutions.
 Here I would remind you of the USN&WR rankings
 which rank most of Michigan's programs in the
 top ten in reputation...but ranks our cost only 37th.

Further, the tuition charged out students is far
 below the actual cost of their education...
 again from the USN&WR data,
 ...\$3,800 in tuition compared to
 ...\$25,000 in expenditures per student
 ...and far below those charged by peer institutions
 ...\$10,000 for leading publics
 ...\$16,000 for leading privates

Since the University continues to pursue a
 policy of meeting the full financial need of any

Michigan student enrolling in its programs, the average tuition seen by most students--when discounted by financial aid--is actually less than that at any other public university in the state...and far less than that at any other university in the nation.

...\$3,800 minus \$2,600 in aid
...or \$1,200 discounted tuition

(Note that our enrollment statistics indicate that our financial aid policies have made the University more accessible to all members of our state than ever before.)

Finally, it is clear that in a knowledge-intensive society, the value of a college education at the finest universities in the world is increasing rapidly. Indeed, I defy you to identify any other investment available in our society today which has a higher payoff

...whether in terms of future earnings
...in terms of quality of life

...or in terms of positive impact on our society.

Hence, I must say that I find the present furor over the "high cost of tuition" both frustrating and short-sighted...a bit of "much to do about nothing"...

I fear that those parents and students calling for us to reduce tuition either simply do not understand the extraordinary bargain represented by a college education...or they don't give a damn about the quality of their college education... (If they are really willing to accept bargain-basement quality in return for bargain-basement quality, there are plenty of other colleges willing to oblige. But this has never been...and never will be...the mission of the U of M!)

I am also a bit puzzled by those politicians who have jumped on the university-bashing band-wagon over tuition costs. Either these folks are incredibly poorly informed about the real facts and issues surrounding higher education in our state today...or they have chosen to exploit public fears and confusion in a cynical effort to win a few more votes ...at the expense of public higher education in Michigan.

However, let me also acknowledge that higher education itself shares some of the blame both for the possible misunderstanding of the real facts and issues surrounding the costs of public education in Michigan and for the opportunities we have afforded those would would attack our universities for short-sighted political gain.

We simply haven't spoken out enough.

In this spirit, then, you can regard my remarks today as at least the efforts of one university president to speak out strongly in defense of public higher education in Michigan!

Tuition

Tuition levels at most universities--including the University of Michigan --are "out of control."

Reality: Tuition levels at the University of Michigan--and at most public institutions--have been quite stable for some time.

In fact, as a percentage of per capita income,
the annual tuition, room and board charged by UM
has remained remarkably stable for over 30 years...
...amount to roughly 40%

In sharp contrast, the tuition levels at major public universities
such as the University of Michigan have remained
both quite stable and quite modest over the decades
of the 1970s and 1980s, amounting to less than
one-fifth that of private tuition levels.

For example, during the past eight years
...tuition increases have averaged only 5.4% per year
less than
...the inflation rate we face...5.9%
...the increase in per capita income...5.5%
and in the face of
...a state appropriation increasing at only 3.6%
over the decade...falling behind inflation

Tuition levels at the University of Michigan are quite high
relative to other institutions.

Reality: In sharp contrast to popular belief, tuition levels
at the University of Michigan and at Michigan's
other public universities are quite low and comparable
to those in most other public universities throughout the nation.

And of course, UM's tuition, room and board
is less than one-fourth that charged by
peer private institutions as Harvard, Yale, and Cornell...
which now exceeds \$20,000 per year!

It should be noted that the most significant factors determining
the cost of education at a public university is *not* tuition.
Rather it involves those other costs associated
with room and board, books, travel, and other expenses.
Indeed, tuition represents less than 25 to 30 percent of the cost
of a public university education--although it comprises
over 70 percent of the cost in a private university.

Finally, there is an interesting comparison that puts tuition costs
in perspective. It is now estimated that roughly 60 percent of
college-age students own an automobile. Ironically, the tuition cost
of a four-year baccalaureate degree at a public university
is typically less than the cost of that car. Furthermore, in sharp
contrast with the *expenditure* made to acquire an automobile,
the *investment* in a college education will be paid off in only
a few years following graduation because of
the very high earning capacity of a college graduate.

The increasing tuition levels at the University of Michigan
are pricing it out of reach of all but the very wealthy.

Reality: 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
used to assure access to public higher education for those
without adequate financial resources.

For example, the University of Michigan has long had a policy
that guarantees all Michigan residents enrolling in the University
that they will be provided with adequate financial aid
to meet their needs until graduation. Roughly 65 percent
of UM students receive some form of financial aid.
This amounted to over \$140 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 "net" tuition,
calculated by subtracting out University financial aid.
For Michigan resident undergraduates, the "sticker price" tuition

in 1990-91 was \$3,488 for an academic year. On the average, the University provided \$1,253 of scholarship aid and another \$1,011 in work-study-loan aid from centrally administered accounts. Hence, the "discounted" tuition seen by Michigan resident undergraduates is:

Carrying out a similar analysis for the past decade, it is clear that strong financial aid programs have kept the effective tuition paid by most undergraduates quite low throughout the 1980s. Indeed, if constant rather than current dollars are used, it is apparent that the "average net tuition" seen by resident undergraduates has actually *dropped* during the decade of the 1980s because of strong financial aid programs.

Of course no student pays for the full cost...

...in a public university, the state appropriation is used to discount the price far below actual cost...

...for example, rather than paying \$25,000 per year

...we first subsidize all students using federal support and private gifts to cut this in half...

...to the \$12,000 currently charged out-of-state students

...essentially the tuition levels of private universities (essentially private levels)

...then for Michigan residents, we use state support to provide a still further subsidy to discount the price even further to as low as \$4,000 per year.

Note here that, in a very real sense, the state appropriation does not support a university like Michigan...

rather it subsidizes the educational costs of Michigan citizens enrolling in its programs.

That is, the state appropriation really flows directly to our students to yield a discounted tuition.

But from this explanation, it is also clear that when state support falls short, we simply cannot provide the same discount, and tuition levels must increase accordingly.

But, of course, even this low cost--less than 20% of the true cost--is too much for some students, so the UM has put into place a policy by which it will meet the full financial need of any Michigan resident attending the University.

...In reality, this reduces the average tuition cost seen by many students still further...to \$1,500 or so.

In summary then,

Federal and private support discount the actual price charged to all students, instate and outstate, far below actual costs.

State support allows us to discount the price still further for Michigan residents... and, in effect, yields the "sticker price" represented by instate tuition...currently about \$4,000 per year.

Financial aid then determines the further discount price for those students needing financial aid, effectively eliminating tuition charges altogether for most of these students.

Here, I would note that most of the funds for our financial aid programs come from private support, but some come from tuition itself...that is, from asking those folks with the capacity to pay a little bit more of their fair share so that those less fortunate have the opportunity to attend UM.

From this perspective, it is clear that universities face few options:

i) To seek state appropriations adequate to provide

- deeply discounted tuitions for Michigan residents
- ii) To reduce enrollments, since in the face of inadequate appropriations, we simply do not have the resources to subsidize as many students at the deeply discounted instate rates.
 - iii) To reduce quality...that is to provide a second-rate education at lower cost
 - iv) To increase tuitions a bit--by asking parents and students to pay a little bit more of their fair share--but still only at a tiny fraction of the real cost--and still at only a tiny fraction of what they would pay to attend academic programs of comparable quality any place else in the world.