

# Higher Education and the New Economy: Who Benefits, Who Pays

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# Cherry Commission Report

- Transitioning from a Traditional Manufacturing Economy
  - Cultural Impact
  - Interdependence of the Michigan Economy and Higher Education (i.e., Post-High School)
    - Historical Benefits to Individual and State
    - Michigan in the Global Economy

# Recommendations (19!)

- Most focus on dramatically increasing, perhaps doubling, the % of residents who attain some form of higher education credential
  - “Make higher education universal”
  - “Improve institutional completion measures”
  - “Expand access to baccalaureate institutions and degrees”
  - “Target adults seeking to complete postsecondary credentials”

# What's Missing

- Costs
- Feasibility
- Tradeoffs between Access, Cost, and Quality
- Strategic Plan: Why “Average” Solutions won't Work in a Highly Differentiated Universe of Institutions, Communities, and Individuals

# Benefits of Higher Education

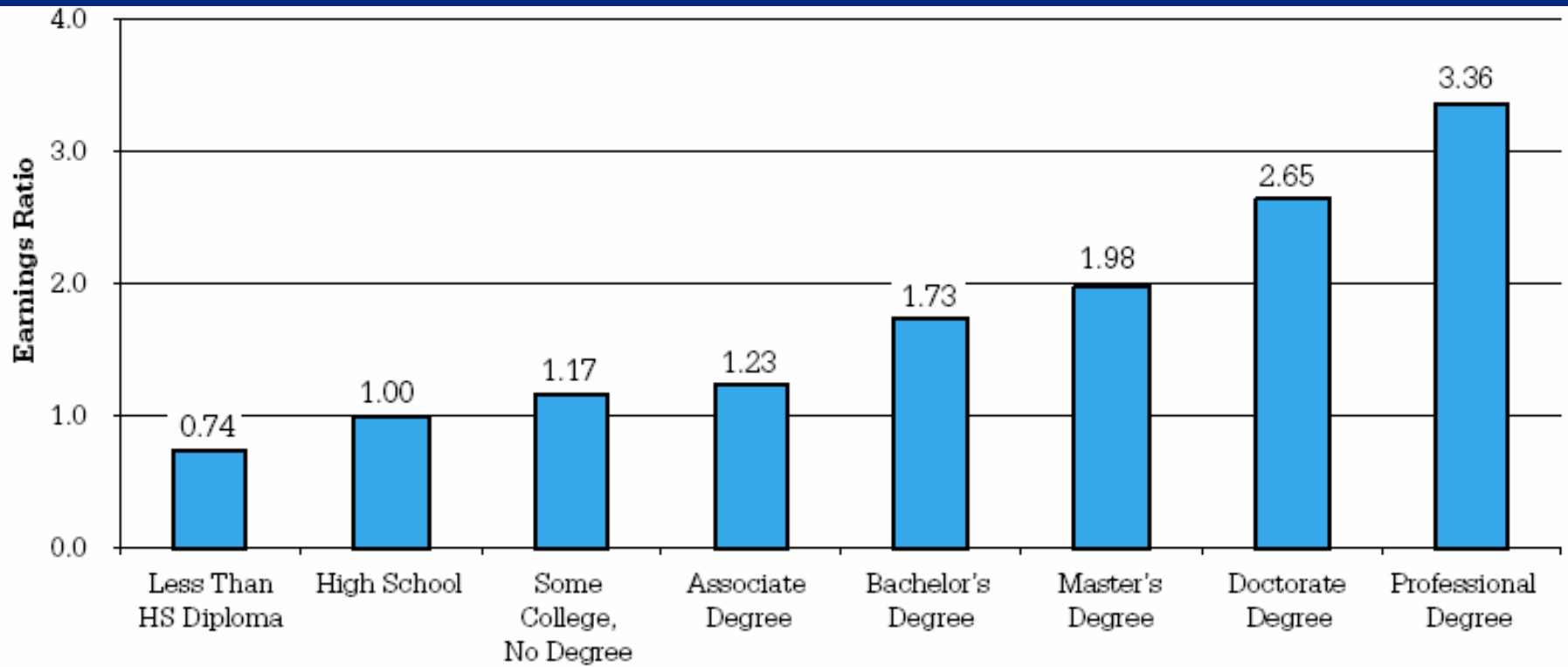
	Private	Public
Social	<p>Improved health/life expectancy</p> <p>Improved quality of life for offspring</p> <p>Better consumer decision making</p> <p>Increased personal status</p> <p>More hobbies, leisure activities</p>	<p>Reduced crime rates</p> <p>Increased charitable giving/community service</p> <p>Increased quality of civic life</p> <p>Social cohesion/appreciation of diversity</p> <p>Improved ability to adapt to and use technology</p>

	Private	Public
Economic	Higher salaries and benefits Employment Higher savings levels Improved working conditions Personal/professional mobility	Increased tax revenues Greater productivity Increased consumption Increased workforce flexibility Decreased reliance on government financial support

# Educational Premium

	High School Diploma	Some College	Bachelor's Degree	Advanced Degree
U.S. Average	\$25,053	\$32,470	\$48,417	\$70,851
Michigan	\$24,210	\$34,492	\$47,558	\$72,969

# Lifetime Earnings Ratio



- Holds True across Gender, race/Ethnicity
- The Value of a High School Diploma is Decreasing relative to a Bachelor's Degree

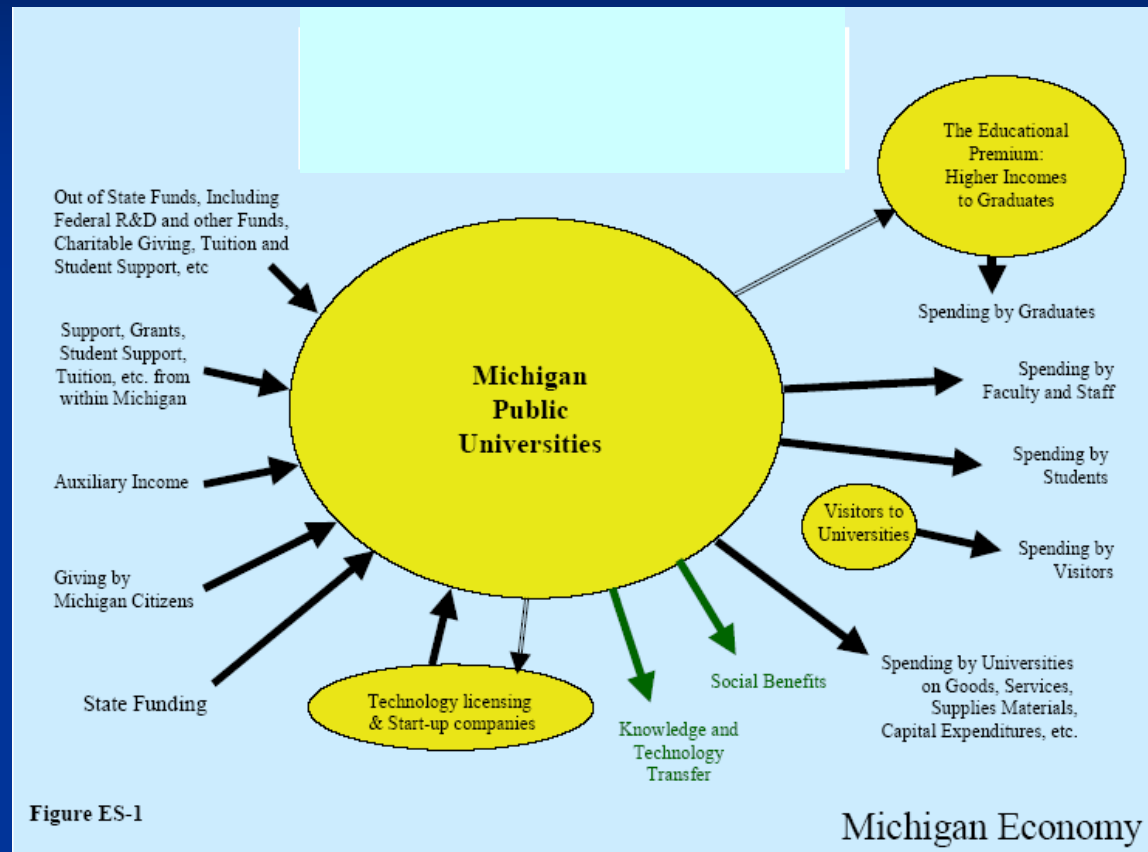
# State Economic Benefits: What We Know

- Higher Tax Revenues
- Lower Social Welfare Costs
- Economic Growth
- Summary: Evidence shows that “the economic return to the state from investing in public higher education always exceeds the original investment, sometimes dramatically so.”

# Claims about Economic Development and Revitalization

- Research and Technology Transfer Pay Off
- What about Degree Production?
  - Correlation is not Cause-and-Effect: Does increasing higher education degree production **produce** economic revitalization or does it **result from** economic revitalization?

## Economic Impact of Michigan's Universities: Resource Flow Diagram



# What – and Whom – It Will Cost to Increase Higher Education Participation

- [Details available in the monograph on [www.epc.mus.edu](http://www.epc.mus.edu) in January]
- Cost: What it costs (the state, the college or university) to produce a college graduate, R&D, outreach/service, etc.
  - For the state: Appropriations and capital monies
  - For the institutions: Expenditures

- Price: What it costs a student (and her/his family) to attend college
  - Sticker Price
  - Net Price (sticker minus grants, scholarships, tax credits)
- Affordability: Ratio of Price/Median Income

# What It costs A College or University to Educate a Student

## Current-fund Expenditures per Full-Time Student in Constant 2000-01 Dollars, by Year and Type of Institution

	Public 2-Year	Public 4-Year	Private 4-Year
<b>1990-91</b>	7,535	21,163	30,441
<b>1996-97</b>	8,137	23,823	32,394
<b>2000-01</b>	9,183	27,973	N/A

Source: NCES, 2004.

**Percentage of Total Costs of Educating an FTE Student  
Accounted for by Student Price, by Year and Type of  
Institution**

<b>Type of Institution /Year</b>	<b>Tuition &amp; Fees + Room &amp; Board (A)*</b>	<b>Current-fund Expenditure per FTE Student (B)</b>	<b>A/B: The Percentage Contribution of Student Prices to the Cost of Educating an FTE Student</b>
<b>Public 2-Year</b>			
1980-81	\$799	\$6,186	12.9%
1990-91	1,612	7,535	21.4
2000-01	1,333	9,183	14.5
<b>Public 4-Year</b>			
1980-81	2,550	16,856	15.1
1990-91	5,243	21,163	24.7
2000-01	8,653	27,793	31.1
<b>Private 4-Year</b>			
1980-81	5,594	21,355	26.2
1990-91	13,237	30,441	43.5
2000-01	17,612	32,394	54.5

- Implication: The price of tuition and fees, even at private colleges, covers only a fraction of the actual cost of educating a student

# Where the Money Comes From

## Percentage Distribution of Revenue, by Revenue Category, Source of Control, and Year

Revenue Category	Public Institutions		Private Non-Profit Institutions	
	1980-81	2000-01	1980-81	2000-01
<b>Tuition &amp; Fees</b>	<b>12.9</b>	<b>18.1</b>	35.9	39.6
Federal Government	12.8	11.2	19.0	17.6
<b>State Government</b>	<b>45.6</b>	<b>35.6</b>	1.9	1.5
Local Government	3.8	4.0	0.8	0.6
Private Gifts, Grants, & Contracts	2.5	5.1	9.4	18.3
Endowment Income	0.5	0.8	5.2	-7.8*
Sales & Other Services	19.6	21.7	23.5	24.6
Other	2.4	3.7	4.2	5.7

# Where Michigan Ranks in Public Support for Higher Education

- Using inflation adjusted or “real” dollars, the results show a real increase in Michigan of 18.1 percent over 10 years in state appropriations for public higher education, or 1.8 percent per year. Over the past 5 years, real expenditures in Michigan have *declined* 2.7 percent or about -0.5 percent annually.
- Overall Michigan ranks anywhere between 22<sup>nd</sup> and 40<sup>th</sup> in public support for higher education depending on the metric used. Michigan was 24<sup>th</sup> in tax appropriations for higher education per capita in 2004.

# What Students Pay for College

- Real vs. Perceived Costs
- Sticker vs. Net Price
- Don't Forget Room & Board!

## Changes in the “Sticker Price” of College Tuition, 1975-76 to 2005-06, by Type of Institution

Academic Year	Tuition and Fees—Current Dollars						Tuition and Fees—Constant (2005) Dollars					
	Private 4-Yr	5-Yr % Chg	Public 4-Yr	5-Yr % Chg	Public 2-Yr	5-Yr % Chg	Private 4-Yr	5-Yr % Chg	Public 4-Yr	5-Yr % Chg	Public 2-Year	5-Yr % Chg
2000-01	\$16,072		\$3,508		\$1,642		\$17,982		\$3,925		\$1,837	
2005-06	\$21,235	32 %	\$5,491	57 %	\$2,191	33 %	\$21,235	18 %	\$5,491	40 %	\$2,191	19%

# The Net Price Story: 2000-1 to 2005-6

- Community College: No Increase in Net Price (vs. 33% and 19% sticker price increase in current and constant dollars, respectively)
- Private 4-year Institutions: + 19.6% (vs. 32% and 18%, respectively)
- Public 4-year Institutions: + 57.1% (vs. 57% and 40%, respectively)

## AFFORDABILITY

### Ratio of Sticker and Net Prices for Tuition and Fees Plus Room and Board\*, to Median 4-Person Family Income, by Year and Type of Institution

Where e.g., .400 means 40% of a family's income	Sticker Price/Median Income (\$XX,000)	Net Price/Median Income** (\$XX,000)
<b>Public 2-Year</b>		
1995-96	.027	.018
2003-04	.029	.005
<b>Public 4-Year</b>		
1995-96	.136	.137
2003-04	.159	.129
<b>Private 4-Year</b>		
1995-96	.350	.322
2003-04	.400	.291

# Implementing the Cherry Commission Recommendations

- The key policy issue: It's not simply cost or access. It's the interplay between cost and benefits, cost and access, and the relationship of them to educational quality.
- An example of the tradeoffs: How does Michigan increase degree production at a reasonable cost to the state and residents while maintaining the strength of university research and public service?

# The Reality of Michigan Higher Education: Variation is In, Average is Out

- Variation in Graduation Rates
  - The two top publics are as efficient as elite privates ( $> 70\%$ ). Many others fall far below.
- Variation in Degree Production and Enrollment
  - Community colleges vary in enrollment from  $< 1000$  to more than 25,000.
  - Publics vary from very small to almost as large as it gets
  - For-profit and private sectors account for a small \$ of overall state higher education enrollment

- *Variation in Mission*
- *Variation in Proximity to Population Center*
- *Variation in Tuition and Financial Health*

# What this Variation means for State Policy

- Increasing subsidies on a per student basis is not sufficiently strategic.
- Instead, strengthening state higher education and resident educational attainment requires targeted investment.
- The cost - to the state and its institutions - cannot be estimated accurately by determining the cost per student and multiplying that number by a desired percentage increase in enrollments. That's because institutions vary by graduation efficiency, cost per student, and facilities to handle enrollment increases.

# Advice for Stakeholders

- State policymakers can help by providing information to help families accurately estimate the costs of going to college. Too many of them, especially those without much family tradition of going to college – which includes low income and minorities -over-estimate the cost of college and consequently do not encourage their children to go to college.
- Increased college participation depends in large part on student preparation in K-12 schools.

- Some increase in state appropriations seems necessary to help Michigan institutions remain competitive nationally. Even more will be needed to expand participation dramatically as envisioned by the Cherry Commission.
- The state might consider increasing its currently limited role in providing financial aid to students.

- Even with some increase in appropriations, families and their children should count of paying more to go to college over time. Making use of 529 accounts etc. seems essential. Even in the best of world there seems little likelihood that the % of the cost of attending college contributed by students will go down.

- Colleges and universities have a major role to play – cost containment. Providing on-line services, using more flexible teaching staff (part-timers etc.), outsourcing, reducing administration – all play a role.
- Public colleges and universities as a whole need to make choices between different functions, to estimate the costs of these functions, and to stop trying to be all things to all people.

- In addition to general state subsidies, the State of Michigan might consider more targeted investments to achieve specific economic goals. Some of these efforts, such as the biotechnology corridor, are already underway. Strategic investment by the state in high technology 2-year programs at community colleges to provide skilled workers for current industries is another step. Each of these strategies should be seen as supplemental to the emphasis on increased access; they will not be accomplished simply by increasing general state subsidies for higher education.