Disaggregating the Truth:
A Re-Analysis of the Costs and Benefits of Michigan’s Public Universities

Nathan J. Daun-Barnett

EXECUTIVE SUMMARY

Recently, Vedder and Denhart published a brief study for the Mackinac Center for Public Policy examining two separate questions: (1) Have Michigan’s public universities suffered as a result of the past four years of declining state appropriations, and (2) Does investing in higher education positively impact a state’s economic growth? The report concludes that by most measures Michigan’s 15 public universities did quite well economically during that period and that overall, there exists a negative relationship between state appropriations for higher education and economic growth. A re-analysis suggests quite the opposite: Michigan’s public universities have suffered from declining state support, which has resulted in higher tuition to students and declining spending on instruction and support services; and higher education stimulates economic growth in ways different than those conceptualized by Vedder and Denhart.

Have Michigan’s public universities suffered economically as a result of declining state support?

The answer in simple terms is yes. Inflation adjusted numbers reveal that all fifteen institutions reduced spending on both student services and instruction. The more important consequence of declining state support has been the reduction in FTE spending on the instruction of students. Again, every institution spent less (CPI adjusted) in 2004 than they had four years earlier on instruction.

Students have been impacted as well. Tuition increases have become a sort of progressive tax levied by public universities as an extension of the state’s declining support for higher education. Since 2002, universities have committed to increasing institutional financial aid at rates comparable to tuition increases. In most cases, those financial resources have been utilized to discount the cost of attendance for lower income students most adversely affected by tuition increases. These choices reflect a set of institutional priorities and commitments to maintain a high level of quality for all while at the same time remaining affordable and accessible to the larger public for which they have been established to serve.
Does higher education stimulate economic growth?
The answer to this question is largely a matter of perspective. Vedder and Denhart measure this relationship in terms of state and local appropriations to higher education and the rate at which the state economy grows. Their analysis suggests a negative relationship between the two. However, they do show a positive relationship between the percent of a population with a degree and the rate of economic growth, which they dismiss as a matter of self selection. The question they fail to ask, however, is whether investing in higher education results in more college graduates – the mechanism by which universities are most likely to stimulate economic growth. There are essentially two mechanisms by which universities contribute to the economic growth of the state beyond the employment of faculty and staff – the generation or research and the training of students for gainful employment. The state’s contribution to research is limited, but it plays an important role in financing the education of students.

With respect to the training of students, research shows that in Michigan, a one percent increase in the percentage of the population that is college educated increases overall average real wages by 1.1 percent (controlling for individual background characteristics, even when excluding effects on those receiving more education). Not only does education positively impact the income levels of degree holders, but also all incomes increased as the percentage of degree holders increased. In simple terms, less educated workers make a higher wage on average in communities that have higher levels of educational attainment. If this is not economic growth, then it certainly constitutes a measure of economic vitality.

Higher education is among the most important investments the state makes, but in comparison to other priorities, it accounts for a relatively small portion of the overall budget. In 2006, the state of Michigan spent $2.09 billion on higher education ($1.8 billion on universities and $289 million on community colleges). The entire budget for Michigan in 2006 was $44.4 billion, meaning that higher education accounts for 6.5% of all expenditures. By contrast, the K-12 budget is more than 6 times as large at $13 billion. These numbers help to put the debate into its appropriate context. Higher education plays an important role but, in and of itself, cannot reasonably be expected to turn around a declining state economy.

Indirect Effects
The majority of state support for higher education is unlikely to influence economic growth directly – except perhaps through the small portion of revenue dedicated to research – but its effect is most likely to be seen through the training of students as future workers. Michigan, like much of the Midwest has experienced a net out-migration of college trained talent. According to Austin and Affolter-Caine, only 2 of 10 states in the region experience a net gain of bachelors level adults ages 25-44 (Minnesota and Illinois). The rest suffer from “brain drain” or the lost of a highly educated workforce.

Contributes to the Knowledge Producing Sectors
Higher education makes strong and important contributions to the state economy, but it does not contribute equally across all sectors of the economy. This distinction is perhaps more important in Michigan than almost anywhere else in the nation today.
Higher education has played very little role training manufacturing laborers and this is where the greatest losses to the Michigan economy have been felt. According to the Institute for Strategy and Competitiveness at Harvard University, Michigan lost nearly 80,000 jobs from 1990 to 2004 in the automotive sector as well as 30,000 jobs in production technology, metal manufacturing, and processed food. Very few of the jobs lost in these sectors included college educated workers, particularly at the baccalaureate level.

By contrast, more than 90,000 jobs were created in business services, followed by 50,000 education and knowledge creation positions, 20,000 entertainment, and 12,000 financial services jobs. The majority of these jobs (with the possible exception of entertainment) required some college education typically at the baccalaureate or above. It is implausible to suggest that higher education can overcome substantial losses to the overall economy or even to those sectors comprised of manual and blue collar labor. If however, Michigan hopes to expand opportunities in knowledge sectors of the economy, as articulated in the work of the Cherry Commission, higher education is likely to have a far greater impact.

Conclusion
This report demonstrates very clearly that the claims made by Vedder and Denhart are limited and misleading in very important ways. First, Michigan’s public universities have suffered from successive cuts in state appropriations. In 2004, state appropriations made up a smaller percentage of institutions total revenues than in 2000. Second, students have been forced to pay a greater portion of the bill as the states’ level of support dropped. While appropriations declined from 2000 to 2004, tuition and fees made up a larger portion of universities’ revenues. Michigan universities spent less per FTE on student instruction and student services from 2000 to 2004 – a period during which cuts to higher education were deep. Third, higher education’s relationship to economic growth is far more complex than what is suggested by Vedder and Denhart. Research shows that when state budgets decline, higher education receives less funding and then is asked to do more in terms of economic development. Separately, research shows that as the percent of the population with a college education rises, so do the wages for both the college educated worked and those NOT college educated. That is economic development.

Higher education is the key to economic growth in a knowledge economy and Michigan is already well behind many states in evolving and growing knowledge industries. Further disinvestment will make it difficult for many institutions to achieve their full potential as catalysts for growth and more important, it will limit opportunity for the least advantaged in Michigan to attend college and participate in the new economy.