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Higher Ed Funding, Investment Or Folly?

The idea behind the Commission on Higher Education and Economic Growth, chaired by Lt. Gov. John CHERRY, appears to be predicated on the assumption that the more the state "invests" in higher education the bigger the dividend it will receive in terms of positive economic growth.

The Commission, which was created by Gov. Jennifer GRANHOLM, is part of the administration's focus on improving Michigan's economy in the future. Its primary goal is to double Michigan's college graduates over the next 10 years. Many expect that the commission may be part and parcel to a drive toward an increased level of higher education spending.

However, the presumption that spending more on higher education translates into an improved economic environment is not universally conceded, according to Richard VEDDER, Professor of Economics at Ohio University, research adviser to the Mackinac Center for Public Policy, and author of Going Broke By Degree: Why College Costs Too Much. He said the relationship between economic growth and state spending on universities may be inverse.

In other words, Vedder contends that the rate of return on state government investments in higher education is very low and very possibly "negative at the margin."

According to Vedder, the presence of state funding enhances the inefficiency of universities because they face few incentives to do things in a less costly manner.

"Most increased funds have not gone for instructional items, such as smaller class sizes or tutorial work, but for hiring more staff, general pay hikes, easier faculty schedules, fancier facilities and greater intercollegiate athletics subsidies," Vedder wrote. "The proportion of kids going to college is about the same in states with high government spending on universities as it is in those with more modest support."

However, Michael BOULUS, executive director of the Presidents Council of Public Universities, said he believes Vedder's study was basically directed toward a predetermined conclusion.

"It's a typical study done by the Mackinac Center," Boulus said. "They start with the conclusion they want and work toward that."

Boulus said that Michigan's universities are not inefficient, as Vedder suggested.

"He [Vedder] is not right when he says our universities are highly inefficient," Boulus said. "Efficiency is not the same as being cheap."

Liz BOYD, press secretary to Granholm, told MIRS that there are some obvious weaknesses in Vedder's arguments.

"To argue against the personal and economic value of higher education is ridiculous," Boyd said. "The more you learn, the more you earn. While it's true that there are variables depending on individual situations, higher education is clearly a path to a higher standard of living."

Vedder claims comparisons between economic growth and state spending on universities show that higher state spending usually equals lower rates of economic growth.

"The statistical results are confirmed by case studies," Vedder wrote. "For example, compare Michigan with the two other largest Midwest industrial states — Illinois and Ohio."

According to Vedder, of the three states in Fiscal Year 1980, Michigan spent the largest proportion of its personal income on state universities. Then, over the next two decades, Michigan dramatically increased its already above-average commitment to universities, so that it had the nation's sixth-highest proportion by 2000.

In 2000, Michigan was spending 2.34 percent of its personal income on state government support for higher education, nearly double Illinois's 1.26 percent and well above Ohio's 1.58 percent.

"Did Michigan's higher investment pay off in greater economic growth?" Vedder asked rhetorically. "No. Illinois's advantage in per-capita income compared with Michigan actually doubled (to over 10 percent) from the late 1970s to 2002, meaning that lower-spending Illinois outdistanced Michigan. In fact, of the three states, Michigan had the biggest spending commitment, but lowest growth, while Illinois had the smallest spending commitment, but the highest growth."

In response, Boyd pointed out that the Midwestern states with the lowest unemployment levels are the states with the highest average level of education.

"We believe that Professor Vedder's arguments are incorrect," Boyd said. "But we won't hold it against him that he's from Ohio."

Boulus questioned why Vedder had honed in on the 1980s spending level and how much the allegedly pertinent data concerning spending on higher education actually had to do with per capita income.

"There can be a lot of reason why per capita income increases or decreases," Boulus said. "What the (Cherry) commission involves is a vision to increase brain power and get more educated citizens in Michigan to prepare them for the knowledge-based economy. What we do know is that having a college degree translates into much higher-paying jobs. And that's true more so in Michigan than in any other state in the Midwest."

MIRS asked Boulus if there are any studies supporting the argument that the more a state spends on higher education the better it is likely to do in terms of economic growth?

"I probably could get you something on that, but right now I'm in Washington, D.C. and away from the office," Boulus responded. "Right now, all I can say is that we're talking about an investment in time, brains and . . . yes, in money. It's all about preparing our workers for the economic transition."

Vedder points out that his findings are at odds with a study done by the SRI International consulting firm, which claims that every dollar spent on Michigan's universities generates $26 in further spending.

However, just as Boulus argues that Vedder's study is flawed, Vedder argues that the SRI study is flawed.

"It assumes, for example, that the extra earnings that college graduates generate compared with their high school-educated counterparts are entirely the result of their university training — not considering that, on average, university students may well be more intelligent, motivated and ambitious than less-educated members of society for reasons unrelated to their university training," Vedder reasoned.

A conclusion Vedder reaches with his study is that there is a strong case for the argument that less state spending on universities would actually lead to a more efficient overall system.

"Any state spending that remains should employ a more competitive approach, such as issuing vouchers to high school and college students, so that they are able to shop around for a better deal," Vedder said. "A voucher approach could be tailored to solve other problems. Vouchers could be ended for students who perform poorly in their academics or behave inappropriately. The problem of college access for poorer students could be addressed by making vouchers progressive — giving more money to kids from low-income homes and less to the wealthy students."

According to Vedder, Colorado recently enacted a voucher law for higher education and some states are considering privatizing state institutions.