

POIYES – Underfunding Claims are Overblown

by Dr. Richard Vedder & Bryan O’Keefe



The conventional wisdom from many Michigan politicians, university presidents, and academics is that state universities are drastically underfunded and that spending more financial resources on higher education will lead to greater economic growth. Even some Michigan business leaders have bought this claim and jumped aboard the bandwagon for greater higher education appropriations.

On its face, these arguments sound compelling, especially for a state like Michigan that has experienced tremendous economic distress. However, our own research for the [Mackinac Center](#) and the Center for College Affordability and Productivity seems to suggest these propositions are exaggerated and over-blown.



Dr. Vedder

The economic argument in favor of higher education spending is certainly in vogue these days. Gov. Jennifer Granholm has made this point repeatedly in recent months, calling for new “investments” in higher education as the panacea for much of what ails this state.

But after examining over 1,000 statistical observations for all 50 states over a 40-year time period, we have reached the opposite conclusion: it appears that state higher education appropriations are associated with lower economic growth.

Looking at Michigan provides a revealing case study for this point. In 2000, Michigan ranked sixth in the nation in the proportion of personal income spent on higher education. It’s clear that this commitment to higher education has not paid off in greater economic growth. This state even lags behind other nearby states like Illinois which face some of the same economic pressures as Michigan but spend far less on higher education.

The hard truth is that more state appropriations devoted to higher education will not magically solve most of Michigan’s economic problems. Nor will these increased expenditures make higher education revenues per full-time equivalent student were higher in 2004 than 2000 for every state university in Michigan, except Ferris State. This is a period of alleged financial distress for the schools, as the state’s economy suffered. At the flagship Ann Arbor campus of the University of Michigan, nominal revenue per student rose more than 30 percent from 2000 to 2004, or nearly 20 percent in inflation-adjusted terms. This supports the notion that the University of Michigan-Ann Arbor was rapidly expanding its operations at the same time that many businesses were experiencing genuine economic stress.

Spending more financial resources on state colleges and universities always sounds like a great idea, especially to politicians eager for public approval and business leaders looking for solutions to their economic problems. But the reality is that many of the supposed benefits and reasons given for greater higher education spending are simply a mirage. ●

Funding Michigan’s public universities is an issue of increasing controversy as the state of Michigan continues to work toward turning its economy around. A piece of Michigan’s economic puzzle is attracting top-notch students to attend our universities and turning out stellar graduates who will remain in our state and make a real difference. So, the question remains, are the current levels of funding for Michigan’s public universities adequate?

Here’s what DR. RICHARD VEDDER, Director – Center for College Affordability and Productivity in Washington, DC, and member of the Board of Scholars at the Mackinac Center for Public Policy; BRYAN O’KEEFE, Associate Director – College of Affordability and Productivity; and MICHAEL BOULUS, Executive Director – The President’s Council, State Universities of Michigan; have to say.