



Senate Subcommittee on Higher Education

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Thank you Mr. Chairman and committee members.

The Governor's budget recommendations for FY 2007 have us headed in the right direction for the first time in five years. I hope we can build on the 2% recommended increase during the budget process.

I know it is distressing to us all that while most states are re-investing in their higher education systems, this has not yet happened here in Michigan. State spending nationally on higher education grew by 6% this year, Michigan is applauding its first budget increase, a modest one at that, since the beginning of this decade. I don't think we can reverse this troubling trend without a broader debate on how we can increase the college participation of our citizens at all levels and simultaneously move Michigan into the top quartile of states in its support of higher education. This in and of itself would take increases in public support for higher education well beyond inflation.

As you know, state spending is about 30 percent less per student today than if the 2000 spending levels had simply increased at the rate of inflation – reflecting a disinvestment of \$2,035 for each full time student.

And I would like to think we have exercised fiscal restraint at the campus level. For the last three years combined, Michigan public university tuition increases are nearly 7 percentage points below the national average.

I have given a lot of thought about how I might best use my time this morning. During my prior years before this committee, you have heard plenty about how the state budget cuts have affected university revenues and per pupil spending; how they have affected university operations; and how they've impacted tuition.

There also appears to be nearly universal acknowledgement – by policymakers and policy analysts on both sides of the aisle, and by researchers and economists, that in a knowledge intensive economy, the states most advantaged in a highly competitive global marketplace are those which have created a well educated and skilled workforce. Equally, it is generally understood that our citizens are more prosperous and have greater social mobility with higher educational attainment.

So I view the primary challenge during the forthcoming budget discussions as how to restore an adequate balance between meeting today's budgetary needs and yet sufficiently investing in the State's future through building and sustaining a world class learning and knowledge infrastructure, so that we can attract new knowledge-based industries capable of driving future economic growth. Unfortunately, the state budget is eating the seed corn instead of planting and cultivating it.

But this committee has heard all of this and embraces the value and importance of higher education. We couldn't ask for a better subcommittee. You have been our best advocates, you have negotiated well on our behalf and clearly are the most knowledgeable about the contributions made to the state by our public universities and the need for greater support for what is the best investment the state can make for its future. However, we are all pretty much helpless unless we change the terms of the budget debate.

We need to begin asking the tougher questions such as: What really matters in positioning Michigan in the new economy? What are the challenges that Michigan universities are solving to justify further investment? Is the level of taxation really the absolute determinant in attracting and retaining businesses, or is there, perhaps another more important factor or set of factors? What is the relationship between our tax system and the level of services expected by businesses and our citizens? How long can we take a world class higher education system and starve it to death?

It seems counter intuitive to be still cutting taxes at a time of falling state revenue. The more jobs we lose, the less money we take in, and the more burden is placed on the state for additional services.

And we still have a way to go in terms of job losses and reduced compensation for those who stay in factory work and the many occupations associated with the domestic auto industry. The forces of economic change are global, and unrelenting. As policy makers, you cannot control globalization, but you are responsible for the appropriate responses to these profound changes taking place in the world we live in.

The best metric to ascertain Michigan's level of prosperity is per capita income, as compared to the nation. For example, the level of per capita income in Michigan's metropolitan areas is substantially less than that of Minneapolis and Chicago. What distinguishes metro Minneapolis and Chicago from metro Detroit, Grand Rapids, and Lansing are significantly higher concentrations of knowledge-based industries as well as the proportion of adults with 4-year college degrees. Simply put, these metropolitan areas are further along in the transition to a post-industrial economy.

Why is talent the most important asset for regions in the 21 Century economy? Bill Gates' observation is that the IT and biotech industries are far more sensitive to the quality and talent in a given geographical area than they are to tax incentives. Access to high quality universities that provide the workers and research capabilities for growth-oriented knowledge-intensive industries, according to Bill Gates, trumps all other factors by a wide margin when industry leaders make decisions on where to invest. California has the country's strongest economy, not because the state embraces the most tax friendly policies. Gates noted, if you are coming up with a breakthrough in medicine it doesn't matter if you are paying a little more in taxes. Case in point, Toyota Research and Pfizer's location in Ann Arbor...

The primary economic strategy in Michigan over this past decade has been to cut taxes. It's time to begin to look at the relationship of those tax cuts to the economy. Has cutting taxes over the past decade turbocharged our economy? By all indications we are lagging behind the nation in many of the most important economic metrics. States with high per capita income and high concentration in knowledge-based industries are not low tax states. Conversely, low tax states are not high prosperity economies.

There are limits to how much government should spend, but there are also limits on our ability to compete in global markets without strong universities and basic public services. Michigan today is spending a smaller percentage of its total personal income on government than it has at any time in the last decade. 2007 GF revenues are less than they were in 1996. At the 1996 level of spending, the economy was strong and we boosted state support in higher education. Tuition was held down, our universities were able to attract and retain the best professors, and our campus facilities, if not cutting edge, were at least modernized. We need to have a broader debate over how best to have a competitive HE system and a competitive business tax climate.

Some say more tax cuts are needed to make the state more competitive, but Michigan's 2005 total state and local tax burden, according to the Tax Foundation, a nonpartisan tax research organization based in Washington DC, is 10.2%, ranking it 21st in the nation, in the middle of the pack. What state's are below us? South Carolina, Alabama, Arkansas. Which state's are well above us? New York, Massachusetts, Minnesota, California. Can anyone question which are the economic powerhouses? Each of the states above us have higher education systems that are highly regarded, which are attracting higher paying information technology and biotech jobs, and they are not those at the bottom of the list when it comes to state spending. We cannot have a Minnesota economy with Alabama taxes. It simply won't work.

Just as businesses that refuse to invest in the future fail, states that refuse to invest in the future will also fail. Bill Gates is right. State investment in higher education *is* more important than having the absolute lowest level of taxation possible when it comes to creating a future for Michigan.

This is probably not exactly the most appropriate discussion to be having before this subcommittee, but it is so important to hear considering the role you have in shaping the future investment policy for higher education – which arguably plays the most critical role in the state's overall economic vitality. Michigan needs a broader debate on these issues.

I know there seems to be little appetite to tackle the structural deficit problem the state faces year in and year out, except to proclaim the oversimplified maxim that we “must live within our means.”

I find it ironic that at a time when everyone acknowledges the most vital asset we have for creating a prosperous future is higher education; at a time when education beyond high school

is virtually essential not just for individuals but for the state's economic success; at this very time we don't appear to have adequate state resources to balance current needs and invest properly in our future.

We need budget decisions that will allow our universities to fulfill their historic mission of transforming lives through excellent affordable education and allows them to harness their full capabilities – all activities aimed at enabling the state to successfully navigate through this period of economic transition.

I thank you for listening.