ILEPI Economic Commentary #37 May 24, 2016

THE BENEFITS OF AFFORDABLE TUITION

The State of Illinois Needs to Invest More – Not Less – in Higher Education

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Executive Summary

A large college-educated workforce is essential for Illinois to compete in a global economy. The cost of a public 4-year university education, however, is expensive in the state. Largely because the State of Illinois only invests $217 per capita in higher education, the annual tuition cost in the state is $20,054 on average for public universities – the 4th-most expensive state in America. Many working-class and middle-class families are struggling to afford college.

Consequently, many students decide to attend college in another nearby state with cheaper tuition. Unease over the lack of state funding has caused a drop in the number of applications at Illinois' public universities. A portion of students attending school out-of-state will stay and enter that state's workforce. In fact, research has found that a 20-percent decrease in tuition can increase the number of college-educated citizens in a state by between 2 and 10 percent. By lowering tuition costs through increased public funding, Illinois lawmakers can halt the outflow of highly-educated citizens from the state.

A 20-percent reduction in tuition costs for students at Illinois' public universities would require a 0.20 percentage-point increase of the state's personal income tax, which would be just $3 per week for the average household. At this minimal price, the state could create– or, in the current budgetary climate, save– nearly 3,800 total jobs, mainly at public universities over the short run. This policy change would also save or create between 4,700 and 23,500 total jobs and boost the state's economy by up to $2.6 billion over the long run.

Governor Rauner's agenda calls for Illinois to compromise the quality of higher education in Illinois by cutting financial support for state universities. By spending significantly less per capita on higher education, costs are shifted onto poor college students and their families. This move not only makes college less affordable and less accessible to low-income families, it makes Illinois a less attractive place for students to learn and ultimately work. Underinvesting in higher education can have serious long-term effects on a state's economy.

Illinois *must* invest in higher education. The state must take action to increase the accessibility of college by lowering tuition costs and to support those in need of financial assistance to attend college. Higher education builds a skilled workforce and the strong middle class that Illinois needs right now.

Introduction

Higher education is extremely valuable both socially and economically. Education broadens an individual's economic possibilities and expands social mobility, often leading to a life of financial stability and higher well-being. On a broader scale, better skilled workers are more productive and innovative. Citizens who receive a college degree have higher incomes, have more money to spend in the economy, and greater ability to invest. Ensuring that college is affordable and accessible to everyone is a high-road, pro-growth policy goal (Berger & Fisher, 2013).

Unfortunately, higher education is becoming less and less financially viable for many families. As of the 2013 academic year, public 4-year college education cost a family $14,000 a year on average. Forty years earlier, in 1976, in-state tuition to a public 4-year university only cost the average family $2,400 annually after adjusting for inflation (NCES, 2012). Of course, students and families must also account for the costs of books, housing, and other activities and experiences over four years of college. However, while the inflation has gradually increased the costs of housing and other expenses, tuition has skyrocketed over the past four decades. One analysis finds that tuition has risen by 1,120 percent since 1978 (Segal, 2014).

This Illinois Economic Policy Institute (ILEPI) Economic Commentary examines the rising costs of higher education in Illinois' public 4-year universities and the potential economic gains associated with lowering tuition costs. Reducing tuition costs tends to lead to more students attending public universities and staying in the state to join the workforce after they have graduated. When more highly-educated citizens live and work in Illinois, the economy grows – one of the many benefits to investing in public higher education.

Illinois is Underinvesting in Higher Education

To varying amounts, all state governments fund public universities in order to increase the number of highly-educated citizens and grow the economy. Due to revenue provided by the state government, public universities often have lower tuition rates than private universities. Lower tuition rates help to make college more accessible for students from poor and middle-income families, while increasing the number of highly-educated individuals in a state. However, substantial state funding also allows public universities to attract and retain the nation's top professors, lecturers, and faculty who share their knowledge to develop the future leaders of America.

Illinois is underinvesting in higher education to a disconcerting degree. According to the 2013-2014 dataset by the Social Science Research Council, the State of Illinois devotes just $217 per capita on higher education (Social Science Research Council, 2014). This is a lower level of funding than 43 states; only 6 states invest fewer dollars per capita in higher education than Illinois. Underinvestment in higher education can limit the quality of schools.

It is perhaps no surprise that Illinois has the *4th-highest* average annual cost of tuition for public 4-year universities in the nation. The annual cost of tuition for a college student in Illinois' public universities is $20,054, or $4,100 more than the national average. Only New Jersey, Vermont, and New Hampshire have higher annual tuition costs (Social Science Research Council, 2014).

The lack of Illinois' FY2016 budget has caused severe damage to higher education in the state. The state government has traditionally funded 9 public universities and 48 community colleges in Illinois, and supported college scholarships for 128,000 low-income Illinois students. Over the past year, however, Illinois universities have laid off hundreds of faculty members and educational grants were frozen, causing both uncertainty and instability. Without a viable long-term budget, Illinois lawmakers are very likely to continue underinvesting in higher education.

This underinvestment primarily hurts the students and future students of Illinois' public universities. Currently, about 72.5 percent of Illinois residents attend college at an Illinois school (Guo, 2015). However, this number may decrease in upcoming years due to the underfunding of public universities. Indeed, unease over the lack of state funding has caused a drop in the number of applications at Illinois' public universities for the 2016-2017 fall semester. Western Michigan University expects to enroll its largest freshman class from Illinois ever, while Murray State University in southwest Kentucky says that "applications from some Illinois border counties are up as much as 40 percent" (Mercer & Scher Zaiger, 2016).

As higher education goes underfunded– and, if Governor Rauner has his way, as higher education receives even less funding– students and their parents will rightly question the quality of Illinois' public universities and seek affordable options in other states.

What If Illinois Lowered Tuition Costs at Public Universities By 20 Percent?

Since a highly-educated workforce attracts businesses and increases innovation in a state, the consequences of underinvestment are dire for the Illinois economy. High tuition costs cause fewer students to attend college in Illinois than otherwise, negatively impacting long-term economic growth in the state. Conversely, lowering tuition would tend to increase the number of both in-state and out-of-state students attending public universities in Illinois. Recent research has found that a 20-percent *reduction* in tuition tends to lead to a 2 to 10 percent increase in the number of college graduates in that state (Kennan, 2015). The opposite is also true: a rise in tuition tends to decrease the number of college graduates in a state.

Over 152,000 students are enrolled in Illinois' 4-year public universities every year (Compete College America, 2012). With an average cost of $20,054 per year for tuition alone, students attending 4-year public universities in Illinois pay or borrow loans for $3.0 billion in tuition annually. A 20-percent reduction in tuition costs at Illinois' public universities would lower the per-student annual cost to $16,043 per year – closer to annual rates paid in Michigan ($18,332), Indiana ($16,912), Minnesota ($16,385), Missouri ($15,109), Iowa ($14,855), and Wisconsin ($13,818) (Social Science Research Council, 2014).

The total cost to the state of a 20-percent reduction in tuition at 4-year public universities would be $610 million in Illinois (Figure 1). This means that Illinois' students would save $610 million, making college much more affordable for all. This hypothetical policy change would incentivize more students to attend public 4-year universities in Illinois and would increase consumer spending by students and their families by and additional $4,011 for each year enrolled.

Figure 1: The Cost of a 20-Percent Reduction in Tuition at Public Universities in Illinois

Tuition in Illinois	Cost
Current Tuition	$20,054
20 Percent Reduction in Tuition	$16,043
20 Percent of Public Tuition Costs	$609,910,324

Source: Social Science Research Council, Mapping the Measure of America (2014)

As a result of the reduction in tuition, an estimated 3,041 to 15,206 students enrolled at Illinois universities would choose to stay in Illinois after graduation (Figures 2 and 3). This 2 to 10 percent increase in highly-educated citizens would improve Illinois' economy by increasing productivity. Through lower loan payments and higher spending on goods and services, Illinois' businesses would also benefit, adding between 1,712 and 8,269 total jobs. The long-run result is a net $521 million to $2.6 billion positive impact on the Illinois economy annually by shifting costs from students (which typically requires burdensome levels of long-term debt) to present-day payments by the state.

Figure 2: Economic Impact of 2 Percent of Students Staying in Illinois upon Graduation

Impact Type	Employment (Jobs Created or Saved)	Labor Income	Net Value Added (GDP)
2 Percent Stay	3,041	$207,289,765	$368,187,860
Consumer Demand Effect	1,712	$86,271,758	$153,226,942
Total Effect	**4,753**	**$293,561,523**	**$521,414,802**

Source: Compete College America (2012) & IMPLAN (2014).

Figure 3: Economic Impact of 10 Percent of Students Staying In Illinois upon Graduation

Impact Type	Employment (Jobs Saved or Created)	Labor Income	Net Value Added (GDP)
10 Percent Stay	15,206	$1,036,516,990	$1,841,060,373
Consumer Demand Effect	8,269	$416,771,776	$740,226,771
Total Effect	**23,475**	**$1,453,288,766**	**$2,581,287,144**

Source: Compete College America (2012) & IMPLAN (2014).

Simply put, Illinois economy would grow by lowering tuition costs by 20 percent. Illinois' workforce would expand, Illinois' businesses would have a higher-skilled pool of labor from which to hire, and consumer spending would increase over the long run.

What about Short-Term Impacts?

Lowering higher education tuition costs by 20 percent annually could be achieved through an income tax hike from 3.75 percent to 3.95 percent, as long as the new revenue was stipulated to go only to students at public universities (Figure 4). Note that this is a hypothetical example and that fixing the current budget crisis in Illinois requires a personal income tax rate much higher than 3.95 percent paired with state spending cuts. Higher education, however, should *not* be subject to budget cuts – as greater support for higher education has been economically demonstrated to improve economic outcomes (Manzo & Bruno, 2015; Berger & Fisher, 2013). Nevertheless, a 0.20 percentage-point increase in individual income taxes would raise enough revenue to reduce tuition costs by 20 percent in Illinois. This equates to $13 a month in additional costs to the average household, or just $3 a week!

Figure 4: Distribution of the Cost of Lowering Tuition by 20 Percent by Household Income

Household Income Level (All Households)	Increased Tax Revenue
$0-$34,999	$22,399,837.35
$35,000-$49,999	$43,478,761.77
$50,000-$74,999	$89,429,387.42
$75,000-$99,999	$88,188,990.93
$100,000-$149,999	$140,526,994.34
$150,000 or more	$225,886,352.19
Total	**$609,910,324.00**

Source: IMPLAN (2014).

If Illinois' public universities become more desirable for future students through lower costs, the state will retain highly-educated workers, their talents, and their spending. Any substantial reduction in the "brain drain" to other states would increase the attractiveness of Illinois to businesses. Meanwhile, lower tuition costs means that more poor families could afford college, improving the future earnings of students who otherwise would not be able to attend. This would not only reduce inequality, it would positively impact Illinois' economic growth – as the talent potential of many young adults would become realized.

This explains why the small increase in the personal income tax would actually boost the Illinois economy right away– as long as the money was *only* spent on higher education (Figure 5). Nearly 3,800 total jobs would be created or saved and Illinois' GDP would increase by $351 million. This is the impact even *after* netting out the negative impact of higher taxes (the "induced" effect), which would cause an initial loss of about 1,800 jobs due to decreased household spending. However, this negative effect on mostly low-paying retail jobs is more than compensated for by the positive impact on typically higher-paying jobs at public universities (the "direct" effect) and industries that provide goods and services to those universities (the "indirect" effect). Overall, the Illinois economy would benefit by transferring tuition costs from poor college students over many years to the broader Illinois population over one year. This finding is at direct odds with proposals by the current Governor.

Figure 5: Short-Run Impact of Lowering Tuition by 20 Percent (through Higher Taxes)

Net Economic Impact Type	Employment (Jobs Created or Saved)	Labor Income	Net Value Added (GDP)
Direct Effect	4,530	$335,423,793	$398,495,261
Indirect Effect	1,056	$52,317,630	$113,257,810
Consumer Demand Effect	-1,822	-$91,236,590	-$160,772,707
Total Effect	**3,764**	**$296,504,834**	**$350,980,364**

Source: IMPLAN (2014).

Conclusion

A large college-educated workforce is essential for Illinois to compete in a global economy. The cost of a public 4-year university education, however, is expensive in the state. Consequently, many students decide to attend college in another nearby state with cheaper tuition, and a portion of these students stay and enter that state's workforce. By lowering tuition costs through increased public funding, Illinois lawmakers can halt the outflow of highly-educated citizens from the state.

A 20-percent reduction in tuition costs for students at Illinois' public universities would require a 0.20 percentage-point increase of the state's personal income tax, which would be just $3 per week for the average household. At this minimal price, the state could create– or, in the current budgetary climate, save– nearly 3,800 total jobs, mainly at public universities over the short run. This policy change would also save or create between 4,700 and 23,500 total jobs and boost the state's economy by up to $2.6 billion over the long run.

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