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ILR Impact Brief - College Tuition Creeps Ever Higher — Here's Why

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Abstract
[Excerpt] A variety of factors are responsible for the rapidly escalating costs of undergraduate education in the United States. Concern about quality — of students, faculty, course offerings, physical plant, and image — militates against a focus on efficiency and productivity at the selective private colleges and universities; a perception among students and families that price signals quality gives the less selective privates cover to keep raising rates. Public colleges and universities, where relatively higher increases have been recorded, continue to grapple with diminishing state appropriations as a share of their budgets.

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higher education, tuition, school quality, access

Comments
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For a more in-depth analysis, please see: Ehrenberg, R. G. (forthcoming). The economics of tuition and fees in American higher education. In *The International Encyclopedia of Education.* Amsterdam, Netherlands: Elsevier.

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IMPACT BRIEF

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College Tuition Creeps Ever Higher — Here's Why

Research question: Why are tuition and fees at private and public institutions of higher education rising faster than the rate of inflation?

Conclusion: A variety of factors are responsible for the rapidly escalating costs of undergraduate education in the United States. Concern about quality—of students, faculty, course offerings, physical plant, and image—militates against a focus on efficiency and productivity at the selective private colleges and universities; a perception among students and families that price signals quality gives the less selective privates cover to keep raising rates. Public colleges and universities, where relatively higher increases have been recorded, continue to grapple with diminishing state appropriations as a share of their budgets.

Policy implications: Expenditures per student at public colleges and universities are falling, causing a parallel decline in the quality of education, despite the growth in tuition and fees. And while the posted price for tuition and fees typically overstates the cost students pay (due to direct and indirect subsidies), families are spending an ever-increasing share of their incomes on college, leading observers to caution that some students may be priced out of the market for higher education.

Abstract: There are more than 4,200 degree-granting institutions of higher education in the United States. Although the majority of these schools are private, two-thirds of students attend public colleges and universities. Tuition for the 2007-2008 academic year averaged $23,712 at the privates, $6,185 at the publics, and $16,640 for out-of-state enrollees at the publics; there is great price variation within each category. Costs have been rising faster than the rate of inflation since the early 1900s. Today, tuition and fees at the top privates account for more than half of the median family income compared to 30% in 1975; stagnant median income since 1980 exacerbates the impact of rising costs.

Taken at face value, however, the numbers are misleading. Students often qualify for financial aid, in the form of grants, loans, tax credits, and the like, which substantially reduces out-of-pocket expenses. Surveys indicate that the typical discount rate (i.e., the share of the posted tuition that reverts to students as grant aid) is approximately 33% at the privates and 15% at the publics. Moreover, students never pay the full cost of their education owing to subsidies flowing from endowments, contributions, state appropriations, and the services provided by classroom buildings, libraries, and the administrative infrastructure.

Colleges and universities are different from other economic entities. Forty years ago, William Bowen, an economist and former president of Princeton University, wrote that tuition was outpacing inflation at private colleges and universities because of the explosion of new knowledge and graduate programs, and because higher education was not experiencing the kind of productivity gains that were showing up elsewhere in the

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economy. By way of explanation, he noted the schools' commitment to quality, which translated into maintaining a fixed student-to-faculty ratio while paying whatever salaries were needed to recruit and retain the best professors.

That dynamic is still in play. Determined to retain their spot at the top, the selective privates keep raising tuition and then price discriminate on the basis of student need or merit. Market forces are irrelevant because students (and families) are willing to pay for access to the social and professional networks, further educational opportunities, and higher lifetime earnings that flow from attendance at the leading schools. The selective privates may try to eke out productivity gains in non-academic arenas, but their degrees of freedom on academic matters are limited by shared governance with faculties and pressures from other constituents, such as alumni. They are also constrained by college rankings—in particular, by *U.S. News & World Report*—which give weight to expenditures per student and to selectivity (acceptances as a share of applications).

The less selective schools also benefit from the focus on quality. They perceive, apparently correctly, that students and families regard the posted price as an indication of value; higher tuition, then, seems to be a marketing advantage. Research shows that merit grants have a larger positive effect on students' decision to enroll than do cuts in tuition. Indeed, the discount rate at smaller, less selective schools is higher than at the most selective institutions.

For public colleges and universities, the quality-price nexus is less advantageous. Tuition and fees have been rising faster than at the privates but quality has suffered. The trend started in the 1970s when tight state budgets, resistance to tax hikes, and growing competition for scarce tax dollars cut into appropriations for higher education. As a result, the share of the publics' budgets supported by state funds has diminished and hefty tuition hikes have not stemmed the ensuing declines in per student expenditures. Faculty salaries have been lagging behind those at the privates, student-to-faculty ratios have been rising, and the quality of students' education continues to deteriorate. Many of the publics are trying to mitigate the financial stress by substantially raising tuition for out-of-state students and accepting more of them, and by charging more for higher-cost programs.

At the graduate level, tuition trends reflect the field of study. Students working on academic doctorates, which generate relatively low economic returns, generally pay about what undergraduates pay; the better universities, however, often provide subsidies in the form of fellowships or teaching or research assistantships. The cost of professional studies, in law, business, and medicine, far exceeds charges for traditionally academic pursuits. Although many of these students are saddled with hefty loan burdens upon graduation, they typically enter fields that pay handsomely. Several top law schools that support their own financial aid programs have offered to forgive student loans if students commit to a career in public service law for a minimum number of years. One researcher found that free tuition was a stronger inducement to enter public service law than loan forgiveness even if students were expected to pay back the tuition if their career plans changed.

Methodology: The author has been researching and writing about the economics of higher education for many years; the article reflects his deep knowledge of the topic.

Source publication: "The Economics of Tuition and Fees in American Higher Education" appeared in the *International Encyclopedia of Education*, 3rd edition, Elsevier: Amsterdam, Netherlands; forthcoming.

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