NEA HIGHER EDUCATION RESEARCH CENTER
Update
VOLUME 9 • NUMBER 5 • DECEMBER 2003

Why Are College Prices Increasing and What Should We Do About It?

INTRODUCTION

Colleges that raise their tuition at excessive rates will face federal government sanctions under a potential amendment to the Higher Education Act. The proposal comes on the heels of "The College Cost Crisis," a September 2003 report in which two House Republicans criticize colleges for repeatedly raising tuition levels at a rate that exceeds inflation. Congress feels that boosts in student aid appropriations are gobbled up by increases in tuition and have not resulted in greater college affordability. The details of how Congress plans to approach price controls are not clear at this time.

From a political point of view, this potent issue speaks to the concerns of families with college-age children. College represents one of the largest investments many parents will make in their children, and they are hard-pressed by the relentless increases in tuition.

Yet, for all of its political appeal, the strategy of imposing tuition price controls is inherently counterproductive. This *Update* reviews a number of reasons why federal control of tuition represents bad policy.

SOME BASIC CONCEPTS

It is important to differentiate the cost of college from the price paid by students. Unlike most goods and services, higher education is sold at a price—tuition and fees—that is lower than its cost.

Further, it is necessary to talk about public and independent colleges separately, because the issues are different. Independent colleges and universities receive most of their income from tuition and private support, while public colleges receive more help from state and local governments. Differences in financing also exist between research and non-research institutions. Research universities have more diverse sources of income than do most other higher education institutions.

PRIVATE COLLEGES AND UNIVERSITIES

Reported tuition increases in independent colleges and universities grab the most attention. Tuition at schools such as Princeton exceeds $27,000 a year. What is not as well-publicized is that these high tuitions are reduced by increasing amounts of institutional aid. Reporting the published tuition makes the price to students seem much higher than the actual price paid net of grant aid. The tables on the next pages provide three measures of tuition. The numbers have been corrected for inflation and averaged across the enrollment in the sector. Tuition is defined as the tuition collected by the institution divided by the number of full-time equivalent students (FTE), *not* the reported tuition paid by a full-time student. The two other measures of tuition are calculated by (1) reducing the average tuition by the average

TABLE 1

Mean Tuition (Constant Dollars) for Students in Independent 4-Year Institutions, 1992–2000

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01
FTE Tuition and Fees	$13,058	$13,307	$13,708	$12,580	$13,671	$14,771	$15,270	$15,770	$16,065
FTE Tuition and Fees (adjusted for institutional aid)	$10,287	$10,378	$10,593	$9,665	$10,537	$11,412	$11,520	$11,922	$12,146
FTE Tuition and Fees (adjusted for all aid)	$ 9,213	$ 9,382	$ 9,618	$ 8,876	$ 9,612	$10,356	$10,236	$10,668	$10,889

Source: IPEDS: 1992–2000.

amount of institutional aid and (2) adding other public or private sources to the grant aid from the institution and subtracting it from the average tuition. These more realistically represent the real price that students pay to attend college.

As shown in Table 1, the average tuition for students in independent colleges and universities increased by 23 percent in inflation-corrected dollars between 1992 and 2000. But these data also suggest that institutional aid went far to soften the increase. Subtracting institutional and grant aid from the tuition results in only an 18 percent net tuition increase.

PUBLIC COLLEGES AND UNIVERSITIES

As shown in Table 2, the trend in tuition change for public four-year institutions between 1992 and 2000 tells a story similar to that for independent institutions. Institutional aid plays a smaller role in the public sector, but other grant aid accounts for a larger share of the reduced price. The results are remarkably parallel with those found in the independent sector. Tuition increased about 22 percent over the eight-year period, but including institutional aid reduces the increase to about 16 percent. The absolute dollar amount is smaller, but the rate of change is about the same.

Table 3 shows that the results for community colleges differ

TABLE 2

Mean Tuition (Constant Dollars) for Students in Public 4-Year Colleges, 1992–2000

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01
FTE Tuition and Fees	$3,974	$4,154	$4,243	$4,358	$4,508	$4,643	$4,705	$4,831	$4,836
FTE Tuition and Fees (adjusted for institutional aid)	$3,526	$3,675	$3,722	$3,800	$3,916	$4,017	$4,042	$4,134	$4,095
FTE Tuition and Fees (adjusted for all aid)	$2,627	$2,793	$2,770	$2,661	$2,980	$3,037	$3,005	$3,123	$3,058

Source: IPEDS: 1992–2000.

TABLE 3

Mean Tuition (Constant Dollars) for Students in Community Colleges, 1992–2000

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00	2000–01
FTE Tuition and Fees	$1,542	$1,580	$1,591	$1,621	$1,633	$1,711	$1,722	$1,782	$1,691
FTE Tuition and Fees (adjusted for institutional aid)	$1,477	$1,510	$1,515	$1,542	$1,551	$1,618	$1,630	$1,681	$1,590
FTE Tuition and Fees (adjusted for all aid)	$749	$752	$744	$757	$781	$780	$758	$804	$707

Source: IPEDS: 1992–2000.

from those found for four-year colleges and universities. First, institutional aid plays a minimal role in reducing tuition, and other grant aid is much more important. Second, average tuition increased by 10 percent, much less than in the other two sectors. Third, after all grant aid is included, the average tuition actually declined by 6 percent between 1992 and 2000. In real dollars and after all grant aid is considered, it was cheaper to go to a community college in 2000 than it was in 1992.

REASONS FOR INCREASING TUITION

In public colleges, state appropriations cover the majority of costs, with a smaller share of revenue coming from the student in the form of tuition. A small reduction in state support may result in a large increase in tuition. An example helps clarify this point. If a public college receives an average $5,000 per student in support from the state and each student pays $1,000 in tuition, a total of $6,000 is spent on the student's education. However, if state support erodes by 10 percent, or $500, tuition must go up by 50 percent to compensate. Small cuts in state support may thus result in large relative increases in tuition. State support of higher education often drops during recessions, which either means wrenching cuts in higher education operations or painful increases in tuition. Most public colleges do both.

Punishing institutions with a high rate of tuition increase would be insensitive to public institutions that start with low tuition and high state subsidies, compared with public institutions in states with historically high tuition and low state support.

The trend toward higher tuition in public colleges is consistent with the current political emphasis on low taxes, the associated reduction in public programs, and greater emphasis on personal responsibility. As states cut taxes and support of other functions, such as prisons and Medicaid increase, it is inevitable that tuition must rise in public colleges and universities to compensate for lost revenues.

According to RAND's Council for Aid to Education (CAE) annual Voluntary Support of Education Survey, contributions to colleges and universities in the United States dropped during 2002—the first decline in giving to higher education in more than 15 years. Private gifts to higher education declined 1.2 percent for the fiscal year that ended June 30, 2002. Voluntary support of higher education accounted for 8.1 percent of higher education expenditures during the 2002 fiscal year, down from 8.7 percent in 2001 and 8.8 percent in 2000. This loss is especially painful for independent colleges and universities.

The quality of higher education is improving, which costs money. Most agree that smaller classes and closer contact between students and professors improve the educational experience. In addition, greater availability of counselors, advisors, and tutors improves the chances of a student succeeding. In a study of college costs, the National Association of College and University Business Officers (NACUBO) found that instruction and student services comprised the majority of higher education costs.* Productivity in higher education is more appropriately measured by the improving quality of educational services, not by such mechanical measures as the number of student-credit units produced per dollar input.

Increasing government regulations adds to college costs. Regardless of whether one thinks that a regulation is appropriate or not, it costs money to comply. Examples include:

- Maintaining access for handicapped students
- Meeting environmental requirements
- Screening international students
- Identifying students who have been convicted under federal or state law of sale or possession of illegal drugs to determine eligibility for student aid
- Conforming with historical preservation requirements
- Reporting institutional graduation rates and crime rates to the federal government

Congress should pay for these unfunded requirements if the goal is to keep tuitions low.

Prices increase as colleges compete for students. Students and their families choose a college, in part, based on the quality of its educational offerings and facilities. The presence of star faculty, extensive athletic facilities, or other features may convince a student to attend. The power of market competition is demonstrated by the influence that the annual *U.S. News and World Report* guide to colleges and universities has on enrollment. Colleges that do not offer these extra attributes may suffer from lost enrollment.

Input costs do rise. Colleges and universities pay salaries that are competitive with those in the private market. Faculty members in high-demand fields such as business and technology command high salaries. If we are to prepare students in these fields, it is necessary to pay competitive salaries. We cannot applaud the financial success of college graduates and begrudge their professors' participation in that success.

The value of higher education is increasing. As the economic return to education goes up, students are willing to pay more. Part of the argument for increasing tuition is that the financial benefits of education accrue to students in the form of higher salaries and better jobs. But society also reaps rewards from higher education, including a more skilled workforce and a more knowledgeable citizenry. Finding the right mix between the public and private share of the cost of higher education is not easy. Politicians and policy makers seem to agree that personal benefits are becoming more important and, thus, have shifted a larger share of costs to the student.

The historical fact that enrollments have increased as tuition has gone up, combined with the fact that the share of students going to the most expensive private colleges and universities has not diminished, supports the conclusion that the value of a postsecondary education is

* NACUBO, *Explaining College Costs*, Washington, D.C., 2002.

increasing. Students are willing to pay more for the higher returns.

NEGATIVE EFFECTS OF FEDERAL PRICE CONTROLS

Price controls threaten institutional diversity. Limiting tuition increases would pose the greatest threat to those institutions that are most and least dependent on tuition revenue. Institutions most dependent on tuition—ones that do not have options to raise money from endowments, states, or research grants—would be most damaged by limits on tuition increases. At the other end of the spectrum, a community college that charged $500 tuition would be limited to increases of two or three dollars under the guidelines, while a college that charged $20,000 would be able to increase tuition by $500 a year with no threat of price controls.

Price controls threaten institutional quality. Quality is hard to measure, but students and their families appear ready to pay for it. A college or university seeking to improve its quality by implementing new programs or hiring additional staff will encounter stiff obstacles if tuition price controls are introduced.

Price controls threaten access for low-income students. In many instances, the most tuition-dependent colleges and universities serve large numbers of low-income students. Such institutions, unable to cushion short-term financial losses with reserves or endowment, would be especially vulnerable to federal price controls.

Price controls threaten local control of colleges and universities. Local boards, state agencies, and state legislatures all play a role in setting tuition. In the last few years, states have struggled to balance their budgets in the face of declining revenue. According to the *Grapevine* report on state appropriations for higher education, seven states have cut support over the last two years and another seven cut support in 2003. Public colleges in these states would suffer even more under punitive federal price controls.

Standard and Poor's indicates that if price controls were implemented, the credit ratings of many colleges and universities would drop. In their words, "The establishment of price controls on the industry would be unprecedented and would likely have a detrimental effect on the credit of public and private universities across the nation." Unpredictable and lowered institutional credit ratings would increase the interest paid on debt when colleges and universities borrow money for improving or adding educational facilities. Increased borrowing costs would add to the costs of operation for many colleges. Price controls would have the perverse effect of causing the cost of higher education to increase.

WHAT SHOULD WE DO?

Everyone with responsibility for higher education must maintain a keen sensitivity to the need for operating colleges efficiently and keeping tuition as low as possible for students. If tuitions increase, compensating increases should be made in student grant programs for low-income students to avoid pricing them out of the market. When tuition increases, the biggest potential loss accrues to students of the lowest means, students who are more likely to turn away from college altogether or limit their choices to less expensive alternatives such as community colleges.

The federal government should continue to support research on how to operate colleges and universities more economically. If Congress is concerned with increasing prices, it should evaluate the cumulative cost of complying with federal regulations and find some way to compensate colleges for their efforts. Colleges, like private businesses, must increase their price to pay the cost of government regulations.

One of the more painful outcomes of state cuts in appropriations for higher education is that states often cut student aid dollars as tuitions increase. A federal matching-grant program should provide support to state aid programs for low-income students so that states reducing their commitment to less advantaged students would pay a price. Legislators who stand to lose a federal dollar for every state dollar they cut might think twice about student aid reductions.

nea
NATIONAL
EDUCATION
ASSOCIATION

Office of Higher Education
1201 Sixteenth Street N.W.
Washington, D.C. 20036
202-822-7100
E-mail: Highered@NEA.org

Higher Education Staff
Rachel Hendrickson
Rex Costanzo
Darrel Drury
Sollie Manalaysay
Cathie Sheffield-Thompson
Valerie Wilk

This issue prepared by: John Lee, JBL Associates

To view back issues of *Update,* go to **www.nea.org/he/**