The High Cost of Higher Education

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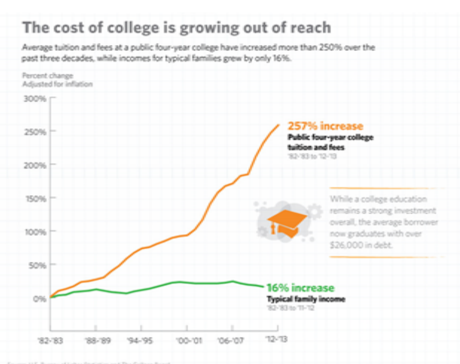
When we think of higher education today we have varying perspectives.

College graduates often experience the excitement, the anticipation, and the promised rewards of a college degree. But young adults may also experience the concern, frustration, tumult, and fear that the college costs, the student loan debt and the long loan repayment periods will slow their opportunities to begin reaping the financial rewards of college completion…or experience the insult, frustration and rage at being barred from college entry or having to drop out before completion because of costs.

Along with its lifetime value, the following 3 charts indicate that the cost of an undergraduate education is growing out of reach for many.

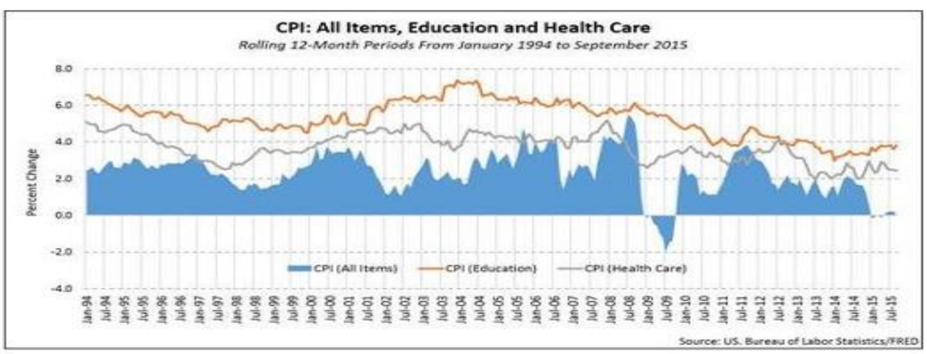
We must be suspect about what we read. A September 2014 Mother Jones article, stated that if one does not correct for inflation, the cost of attending a four-year college has increased by 1,122 percent since 1978. But of course we must correct for inflation.



Between the 1982-83 academic year and the 2012-13 academic year, published college tuition and fees increased 257%, while the typical family income rose just 16%.

	Tuition and Fees in 2016 Dollars						Tuition and Fees and Room and Board in 2016 Dollars			
	Private Nonprofit Four-Year	Five-Year % Change	Public Four-Year	Five-Year % Change	Public Two-Year	Five-Year % Change	Private Nonprofit Four-Year	Five-Year % Change	Public Four-Year	Five-Year % Change
1976-77	$10,680		$2,600		$1,190		$16,760		$8,160	
1981-82	$10,810	1%	$2,390	−8%	$1,140	−4%	$16,630	−1%	$7,540	−8%
1986-87	$14,630	35%	$3,110	30%	$1,450	27%	$21,650	30%	$8,900	18%
1991-92	$17,340	19%	$3,720	20%	$2,070	43%	$25,070	16%	$9,630	8%
1996-97	$19,920	15%	$4,560	23%	$2,250	9%	$28,140	12%	$10,950	14%
2001-02	$23,560	18%	$5,110	12%	$2,180	−3%	$32,340	15%	$12,250	12%
2006-07	$26,380	12%	$6,860	34%	$2,680	23%	$36,060	12%	$15,180	24%
2011-12	$29,700	13%	$8,820	29%	$3,170	18%	$40,450	12%	$18,270	20%
2016-17	$33,480	13%	$9,650	9%	$3,520	11%	$45,370	12%	$20,090	10%

According to the College Board, the average annual published cost of tuition and fees at a public university for the 2016-17 school year was $9,650 for an in-state student. The average cost of a private university was much higher at $33,480 for the same period. As can be seen in the chart, after adding the cost of housing, books, and other items, it is much higher.



This CPI chart contains the year-over-year percentage change (on a monthly basis) from January 1, 1994 to September 1, 2015. The blue area represents total inflation, the grey line represents health care inflation, and the orange line shows how education expenses have changed.

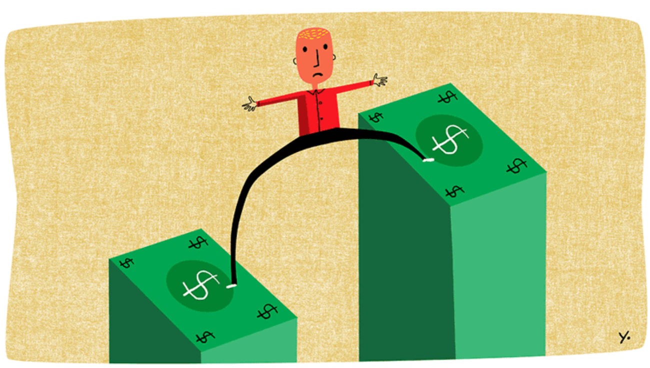
Total inflation averaged 2.3% during this entire period. Healthcare has increased 3.7% and education expenses rose 5.2%.

A college education is now the second-largest expense an individual is likely to make in a lifetime — right after purchasing a home. Debt from student loans has become the largest form of personal debt in America—bigger than credit card debt and auto loans…eclipsed only by home mortgage debt.

The discussion and charts thus far has been an attempt to indicate published college educational expenses, published tuition and fees, tuition and fees and room and board have all risen dramatically. But have we been talking about the actual cost of a college or university education?

What are the actual costs of a college or university education?

Well, it's Complicated.



The surge in tuition at both private and public institutions, even when accounting for inflation may strike fear in the hearts of college-bound students and their families but the great secret of college tuition is that most students pay less, some far less, than the published tuition and fees.

Discounting

According to a March 2016 Chronical of Higher Education article, from 1995 to 2015 the average ***list price for tuition and fees***, at four-year public institutions, has risen **115 percent**, in inflation-adjusted dollars. But the average net price has risen by **just 48 percent** over the same time. The average list price for private-college tuition and fees rose by **70 percent** over the past 20 years. But the average net price rose **by just 32 percent** over the same years.

Said another way, in the 2015 Tuition Discounting Study by the National Association of College and University Business Officers, released in May of 2016, the average tuition discount (not including room, board or fees) in the U.S. for undergraduate programs was about 50%.

So why do colleges tout the sticker price if it's misleading? Anya Kamenetz, an NPR education blogger and author answers that "There's a strong perception that a higher-priced college is a better college," Also, colleges, much like airlines, charge different amounts for different seats.

"You get your acceptance letter, and then you get your financial aid package. So colleges can conceal the fact that they are actually charging people extremely different prices to go to the same school," she said.

The director of Georgetown University's Center on Education and the Workforce, Anthony P. Carnevale agrees: "Tuition-discounting is used to admit high-performing middle-class students,"

Though discounting tuition sounds great, it also presents a problem — the high sticker prices scare off low-income students who aren't aware of the practice. The other downside of this smoke-and-mirrors way of pricing college is that it gives schools little incentive to keep costs low.

A few schools have tried — like some car companies — to publish lower "sticker price" tuition and not offer any discounts, but these efforts, for the most part, have failed to attract more students. Gary Becker, a Nobel laureate economist, and Richard Posner, have recently argued that one solution to the tuition conundrum may be to allow public schools to charge a range of tuition prices — like private schools do — based on the family's ability to pay. They cogently argue that "charging low tuition to everyone, as public colleges do for residents of the state in which the college or university is located, does not make economic sense; it merely provides windfalls to families willing and able to pay the full tuition.

It is regressive. (More on this later).

Even with discounting of tuition, there is consensus that college costs are still rising rapidly.

1. For state universities, government funding has been slashed

As indicated in this chart, state governments have been slashing PER STUDENT funding to higher education for decades, but during the Great Recession, that support plummeted dramatically. According to New York think tank Demos, declining state spending was responsible for nearly 80 percent of tuition hikes at public colleges and universities between 2001 and 2011.

As you well know, in 2007, when the global economy collapsed, surging unemployment cut deeply into income and sales taxes. Concurrently, collapsing property values undermined a once-reliable tax base. And state officials were left with multi-billion-dollar budget gaps that had to be filled. The consequent budget squeeze brought big cuts in funding for higher education. Even now, as the economy has recovered and tax revenues are growing again, state budgets remain under intense pressure from the growth of mandatory spending programs, including pensions and health care for retirees and Medicaid for lower-income households.

As measured by dollars of appropriation per $1,000 of income, state appropriations to public colleges and universities fell by 43 percent from 1990 to 2015. Since 1990, students' share of tuition more than doubled as the states have cut back funding.

While states have been reinvesting in higher education, between 2008 and 2016, states have actually cut higher educational per student subsides by another 30 percent or nearly $10 billion according to the Center on Budget and Policy Priorities.

Though some states committed to spending additional money in the current fiscal year, said Tom Harnisch of the American Association of State Colleges and Universities, often those additional funds were available only if the colleges froze tuition or limited tuition growth.

2. All but the wealthiest private schools have experienced great tuition increases because schools are tuition driven and have low endowments.

According to a recent report by Moody’s, while an improved economy and rising stock market have helped private institutions repair much of the Great Recession's damage to their endowments, the biggest investment gains and largest recent gifts are flowing to the wealthiest schools. Like wealthy individuals, the wealthiest schools have a wide range of income sources including investment income, gifts, and research grants. Wealthy schools also capture the bulk of charitable gifts flowing to higher education. The top 40 richest schools alone received nearly 60 percent of all gift revenue last year. That's why, for students attending all but the richest private schools, tuition and other fees pays the bulk (75%) of the cost of their education.

3. The costs of attracting students: Added accoutrements

You may ask: “Why, if revenues have slumped, would colleges spend even more?”
Though the majority of colleges and universities are labeled “not for profit,” endowment building is a primary goal…as we just discussed. Attracting top students is the predominant competition educational institutions participate in to build their endowments. In short, because colleges with star faculty, aesthetically pleasing campuses, top notch athletic facilities, rock climbing walls, lazy rivers, extravagant student housing facilities, and other amenities boost their prestige and ranking, they attract more applicants and offer educational programs that will result in high paying jobs. All this makes them more competitive, which, in turn, allows the colleges to choose only the best students — and the best students are the ones who often come from the wealthiest families, particularly those who can pay full tuition, who will make the most money after they graduate, reflect well on the institution, donate, and attract more third-party funding.

This criterion for attracting top students raises operating costs. High operating costs means high tuition. The schools that do not follow suit are neglected by applicants and fail to remain relevant. To avoid this, institutions spend money to make these changes, and raise tuition to fund them. This has a multiplying effect across all institutions. Whenever one school increases spending, enhancing the quality of the school, other schools must do the same to maintain relative prestige. The result is the continuity of tuition increases in America. So, many administrations institute these changes to adhere to the changing demands of students (the customers are always right).

Jane V. Wellman, the founder of the Delta Project on Postsecondary Costs, Productivity and Accountability, gave this new student attracting activities a different twist. She that it is “the second-tier institutions that throw money at the consumer side of things, hoping to hang onto students and to move up in rankings.” "They can't compete head to head with the big dogs, and have found that students with money are willing to spend it on things that have immediate and tangible benefit." Supporting this notion is a 2013 Wake Forest publication suggesting that the students most influenced by amenities were (lowest income students receiving scholarships and grants that cover most, if not all, of their educational expenses and lowest ability, highest-income students receiving no scholarships.”

4. Hidden college fees

College financial officials are also tacking more and more hidden fees onto total college costs, raising revenue for their underfunded colleges and causing all kinds of financial headaches for unsuspecting students. There are extra charges to start college, such as orientation fees and freshman fees, and extra charges to finish, such as senior fees and commencement fees. There are nickel-and-dime fees, like $8.50 at Indiana University to drop a class after two days, and large ones, like $3,049 to major in digital media and animation at the SUNY system’s Alfred State College. At California Polytechnic State there is an $814 fee to reduce class size, a $1,147 campus academic fee, a $694 university union fee, a $307 instructionally related activities fee, and a $314 associated student fee. Tuition at Cal Poly and other California State campuses has been frozen for five years.

Richard Vedder director of the Center for College Affordability and Productivity states that "This is a way to try to disguise the actual price of college." Some colleges respond to the public outcry over soaring costs by freezing or capping tuition and using fees to help pay for core instruction. Since 1999, mandatory fees have risen 30 percent more than tuition. In 2015-16, the average fee at four-year public colleges was almost $1,700. That's nearly 20 percent of the tuition and fee average. "You can mandate freezes all you want," said Tom Allison, the director of a national research group that helps expand economic opportunity for young adults. "But the money has to come from somewhere."

5. Ready availability of student aid

While some higher education's critics tend to blame high prices on overpaid professors or fancy climbing walls, or hidden fees, or reductions in state support, a recent study places blame on the ready availability of student aid. This ready availability of money makes tuition rises less often challenged.

College costs are exacerbated by the reckless way in which student loans are awarded. Because student loans cannot be discharged in bankruptcy, "lenders don't have many reasons to apply any discipline when they're lending out money to students," They don't have to do any consideration of whether that student has a good chance of getting a degree or whether that degree has a good chance of getting them a good job. It's basically play money with no consequences versus buying a house, in which a buyer would be thoroughly vetted. Student debt is nearly impossible to discharge in bankruptcy, the conventional wisdom goes, though as part of an ongoing class-action lawsuit filed against student loan servicer Navient, the company has voluntarily agreed to stop collection activities on loans used by borrowers who filed for bankruptcy.

6. Some students subsidize others

Undisputed, however, is that institutions are using some of their students to subsidize others. Therefore published tuition charges will continue to increase.

English majors are charged the same amount as biology majors, for example, even though English classrooms are cheaper to provide than biology labs.

Underclassmen, whose introductory courses often taught in large groups in giant lecture halls with help from low-paid teaching assistants subsidize upperclassmen, who meet in smaller classes that are more expensive to provide. A member of the faculty at UCLA has separately calculated that the disparity is great.. Classes averaging 200 students, he found, cost about $56 per student to teach at public universities, compared to $560 per student in classes averaging 20 students. Yet all are charged the same amount.
"Rich, dumb kids," he said, "are subsidizing rich, smart kids."

Out-of-state students at public universities also are increasingly subsidizing in-state students. Nearly 40 percent at the University of Michigan and the University of Wisconsin-Madison. At U.C. Berkeley, the proportion is nearly 30 percent, about six times what it was as recently as 2006. At UCLA and UCSD, almost one in every five students is from outside California. The California State University system recently announced that it would not accept in-state graduate students next spring; only out-of-state students, who pay more, are welcome to apply to Cal State graduate-degree programs.

International students also subsidize domestic ones. Eighty-one percent pay universities the full price, a much higher proportion than students generally, bringing in around $20 billion a year in tuition and living expenses, according to the U.S. Department of Commerce and the Institute for International Education.

Undergraduates in low-cost disciplines such as the humanities and social sciences also help to pay for students in subjects that cost more to teach, including fine arts, agriculture, law and engineering, At all but the small number of universities whose athletics programs make a profit, ***students***—not broadcast networks or alumni—also subsidize athletics, mostly through mandatory fees, although they may not be aware of it.

7. Government rules regarding price fixing

Most people think that college tuition is too high, and many presidents of private colleges agree with that sentiment and would like to cut their tuition. However, they cannot legally do so, at least not in a way that would be beneficial for them — which would be for a large group of private colleges to jointly reduce tuition. By law, such a move would constitute price fixing, even though a conspiracy to reduce prices would be a boon for customers. Risking the ire of the Justice Department, which launched an investigation when a college president suggested such an idea at a public conference is something colleges wish to avoid. No college president likes being told by an officer of the government that they're risking jail time, and such threats cause such discussions to quickly cease.

8. A broken business model

Julia Freeland Fisher director of education research at the Clayton Christensen Institute, states that the largest problem, by far, is that the vast majority of higher education institutions pursue three distinct and often incongruous business models:

a. producing research,

b. providing instruction

c. and preparing students for life and careers -- all bundled together.

The biggest increase in cost per student at large research universities — the ones that set the competitive norms— was not in instruction but in administration: student services, institutional support, research and academic support. The growth is in the number and pay of non-teaching professionals in areas such as academic and psychological counseling, security, information technology, fundraising, accreditation and government compliance.

Richard Vedder, an Ohio University economist and founder of the Center for College Productivity and Affordability. College presidents and administrators, he argues, appease faculty members by giving them control over what and how they teach. They appease students and parents with high grades, non-academic student support, and student facilities. They appease alumni with expensive sports teams. They appease politicians with shiny new research centers. “The idea is to buy off any group that might upset the political equilibrium,” Vedder said.

Tuition

1. Do we reduce it?

In studying five years (2007-2008 and 2012-2013) of Integrated Postsecondary Education Data System (IPEDS) data, it turns out that on average, lowering tuition does not have a notable effect on enrollment or yield for public institutions, and only a minor effect on those categories for private institutions.

One factor to note is that schools that reduced price also reduced aid, so although the sticker price was reduced, these schools – on average – did not necessarily become cheaper for many of the reasons previously stated. And, in some cases, taking aid reductions into account, they actually became more expensive. In fact, lowering costs and decreasing aid could have very little benefit, and could end in a loss of revenue if enrollment doesn’t increase.

How about free tuition?

Last Sunday, New York lawmakers approved a plan to make attending public colleges and universities free for in-state students whose families earn $125,000 or less. New York is the first state to offer free four-year tuition.

In separate studies, Chenny Ng, an education policy researcher at Northwestern University and Michal Kurlaender of the University of California at Davis both found that free tuition will not solve today's real problem: the gap between enrollment and graduation…*as the cost of attending college drops to zero, so does the perceived cost of dropping out.* Free tuition can increase enrollment but does not necessarily increase graduation rates.

Also, free tuition is regressive

A study of Scotland by (Lucy Hunter Blackburn of the University of Edinburgh) estimated that the free tuition policy for Scots was regressive. A free tuition model is more regressive because it gives richer students a subsidy and places a bigger burden on poor students by not helping them with the cost of living. She states that currently, the American university system is very progressive. The amount families' end up paying is based on their income, which means richer students subsidize poorer ones. A price based on ability to pay shares the burden more fairly.

In a recent *Forbes* article, John Ebersole, president of the nonprofit Excelsior College, offered the following, "While I, and other reformers in the field, applaud efforts to ease financial burdens for students, we do have reservations about possible unintended consequences of 'free' college. The idea of 'free' college degrees comes at a risk. If students don't perceive value in the credentials, they may not remain committed to their attainment; a degree that costs nothing could be valued accordingly." What seems more at stake here, though, is not how individual students value these degrees but how the world at large does. Is a college degree from a free tuition institution viewed as less valuable by society at large?

Recommended changes

It’s still hard for families to tell what college will likely cost them and how much borrowing a particular school will require. Colleges are not required to report or otherwise disclose how much debt is typical for their graduates, and they are not required to give students financial aid award letters that include the full cost of attendance. Some schools hide the bottom-line cost – how much you’ll have to pay – by leaving this full cost of attendance off, or even blurring the lines between grants and loans. Net price calculators, which are now required of all colleges vary tremendously.

What structural changes can higher education institute?

1. Cap administrative costs

In a 2014 American Institutes for Research Issue Brief, The biggest increase in cost per student at large research universities was not in instruction but in administration: student services, institutional support, research and academic support. The growth in the number and pay of non-teaching professionals is in areas such as academic and psychological counseling, security, information technology, fundraising, accreditation and government compliance.

2. Take classrooms online

Since so many more Americans want and need higher education, we’ve got to deliver it more cheaply. In every other industry, technology has been the answer. There’s a lot of potential for technology to substitute for the classroom. You could have a smaller faculty. Hybrid technology-and-professor systems would require fewer instructors. Everyone would have the choice of the 10 best lecturers and the 10 best scholars in the country (they’re not always the same people), plus teaching assistants who can work with you and lead discussion sessions.

3. Allow credit transfers more easily

There's a ton of inefficiency that comes from people dropping out and transferring from one school to another, so smoothing the path to a degree, helping people transfer and keep their credits from the other institution could lower costs.

4. Operate year-round, and on Fridays

Utilizing each day of the week and going to school year-round would allow students to complete an undergraduate program in less time and reduce costs by more complete and efficient utilization of the physical plant.

5. More teaching, less (mediocre) research

Few students or parents realize that tuition doesn't just pay for faculty members to teach. It also pays for their research. I'm not talking about research supported by grants. I'm referring to the research by tenure-track faculty members that is made possible because they teach only two courses per semester, rather than the three or more that was once the norm.

Teaching loads at research universities have declined almost 50 percent in the past 30 years, according to data compiled for the American Council of Trustees and Alumni. Today, research is the dominant criterion by which faculty members are evaluated. In deciding which professors get tenure, assessment of teaching tends to be perfunctory and all that is required is competence. It is nearly impossible, however, for a professor to win tenure without publishing at least one book and/or three or four articles in top academic journals. In his new book "Higher Education in America," former Harvard president Derek Bok notes that 98 percent of articles published in the arts and humanities are never cited by another researcher. In social sciences, it is 75 percent. Even in the hard sciences, 25 percent of articles are never cited, And, if cited, the average number of citations is between one and two.

A better approach would be to offer comparable pay and status to professors who spend most of their time teaching, reserving reduced teaching loads for professors whose research continues to have significance and impact. Some departments at some schools have embraced "differentiated teaching loads," but most tenured faculty members resist and resent the idea that they need to continually defend the value of their research. And university administrators are wary of doing anything that might diminish their universities' research reputation.

6. Cheaper, better General Education

Roughly a third of the courses undergraduates take fulfill general-education requirements meant to ensure that all students receive a well-rounded education. Universities have gotten more serious about requiring a minimum proficiency in writing and quantitative reasoning, but some critics say the rest of general education tends to be an intellectual cop-out.

A university concerned about cost and quality would restructure general education around a limited number of courses designed specifically for that purpose — classes that tackle big, interesting questions from a variety of disciplines.

Combine great talks by one or more professors and outside experts with video clips, animation, quizzes, games and interactive exercises — then supplementing that online material with weekly in-person sessions for discussions, problem solving or other forms of "active learning." And having "labs" open day and night that use tutors and interactive software to provide individualized instruction in math and writing until the desired competency is achieved.

7. Slim down non-instructional costs

On the private education side, they are including a ton of amenities. Unbundling different aspects of the college degree would lower the cost. For instance, College for America through Southern New Hampshire University is extremely low-cost because people enroll through their employers. It's online and entirely self-paced, and it focuses on building a specific skill set instead of the traditional disciplines. And it's a fully accredited program for a fraction of the cost.

8. Minimize the length of college attendance

Using entrance exams and high school courses for college credit, expanded course loads, year-round attendance, online courses, combine degrees and accelerated programs the length of college attendance could be reduced.

But let's agree that higher education continues to be a good investment and has great value to the recipient and society.

While politicians rightfully claim that the national economy is being slowed because student debt is preventing young college graduates from buying homes or starting families — or even moving out of their parents' basements, a college degree is still a good investment! From this 2014 Bureau of Labor Statistics chart, we can quickly determine that college educated persons earn more and are more likely to be employed than those with less education.

According to a 2014 Federal Reserve Bank of New York article, (Current Issues in Economics and Finance, "Do the Benefits of College Still Outweigh the Costs?") despite the potential downsides, college is still a better investment than pretty much any other a person can make in his or her lifetime, with a 15% annual return on investment.

In the period between 1970 and 2014 as a whole, those with a bachelor's degree tended to earn 56 percent ($1,000,000) more than high school graduates while those with an associate's degree have tended to earn 21 percent ($325,000) more than high school graduates during their working lives.

While the product of higher education can have enormous personal benefits for those who acquire it, it also has external benefits to the rest of society. Education exerts something of a multiplier effect since it transforms not only the lives of the educated but of those around them as well. Workers with more education are more productive, which makes companies more profitable and the overall economy grow faster. There are also significant noneconomic benefits. Educated populations tend to be healthier, more stable and more engaged in their civic institutions and democratic debate.

The great national crisis is the fact that too many other young adults are not going to college or, if they go, they don't graduate, in large part because they can't afford it. Every American benefits when every other American has access to as much schooling as he or she wants. When accessibility to higher education declines, we all end up paying for it.