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The Rising Cost of Tuition Surpasses the Rate of Inflation

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by Jasmine Evans

Panic around the rising cost of college is not a new phenomenon. An article in a December 1968 issue of The New York Times reported on the growing economic problems of that decade. Reporter Thomas Mullaney wrote, "The public is being hit increasingly in the pocketbook by a wide array of price increases for goods and services ranging from cars to clothing to consulting fees. The head of one New York family cited some of them when he complained recently: 'In a two-week period, I had notices that tuition for my three children at private schools is rising between 15 percent and 30 percent.'" Sound familiar?

While the complaints may sound very similar to what we hear today, times have definitely changed. Rita Kirshstein with the Delta Cost Project says that what college students face today is "not your mother's college affordability crisis." The reasons behind the current crisis are more complex.

The price of college tuition has increased at a pace much faster than that of inflation in recent years. According to a report by the Delta Cost Project, tuition for a public four-year institution in 1970 was \$358 per semester. If tuition had grown in pace with inflation, the average tuition at public colleges would have been \$2,052 in 2010. Instead, the average per semester tuition at public colleges and universities was \$6,695 in 2010.

In order to cover the cost, an overwhelming majority of college students are receiving some form of financial aid, which is usually some combination of federal loans, work-study, scholarships and grants. But, for many students, their financial aid package isn't enough.

In 2010, the cost of tuition at public colleges and universities took up about 11 percent of the median family income (around 36 percent for private institutions)—a significant jump from 4 percent of the median family income in 1970. Because students have to take out loans, they are graduating with a mountain of debt, which can weigh them down for decades. As of June 2012, the amount of student loan debt is higher than credit card debt, and the gap between them is projected to continue growing.

Professor Richard Vedder, who teaches economics at Ohio University, argues that tuition costs so much because colleges and universities have very little incentive to lower their costs. Higher education is one of the few industries where it is more profitable to have a higher price tag.

Princeton professor of sociology Thomas Espenshade agrees with Vedder's theory on the whole. In a college setting, Espenshade says, the goal is to produce as many degrees as possible, so each faculty member has to produce more degrees. But universities don't want to produce more degrees by increasing the average class size because that would dilute the quality of education. So, they hire more faculty, which drives up the cost. Colleges are feeling more pressure to produce degrees now since three out of five jobs require a college degree.

Many believe schools are increasing tuition to buy recreation equipment and extravagant residential buildings. But the numbers don't support that. In the last five years, colleges have actually cut their spending on facilities. Professor Jesse Rothstein at UC Berkeley says that Berkeley has had to cut its budget at the risk



Dr. Richard Vedder says schools have no incentive to lower costs.

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of sacrificing the quality of the education it offers. Institutions of higher education, particularly public institutions, are facing significant challenges presented by the economic downturn as much as any other industry.

Colleges get their money from two general sources of income: tuition from students and their families and institutional subsidies. At public colleges, the subsidies come largely from federal, state and local governments. At private colleges, earnings on endowments and private gifts fund a large portion of their subsidies. The average subsidy at public institutions reached a new low in 2010, the lowest it had been in a decade. So, in order to cover the cost of the money these schools are losing, they have to increase tuition and get that money directly from the revenue generated from students.

Higher tuition means more debt. And since students are having to shoulder more of the financial burden, they are choosing higher-paying careers when they can. Rothstein says that the increase in student loan debt is "making it harder for graduates to serve the country or do things that are in the public interest."

In addition to affecting the kinds of careers college graduates are choosing, high college costs may disproportionately affect minority students. Minority groups are more dependent on financial aid and, therefore, more likely to have higher student loan debt. Espenshade says that the gap between the rich and poor—which often mimics the racial gap between Whites and underrepresented minorities—could widen if the cost of college continues to escalate.

The Obama administration has been working hard over the past four years to make college more affordable. In both his campaigns, Obama proclaimed the importance of a college degree, encouraged people of all ages to receive additional education or training and promised to make college more accessible.

Jane Glickman, a press officer with the U.S. Department of Education, explains what's been done so far, saying, "The department reaped billions of dollars in savings by eliminating subsidies to banks in student aid programs, which was then redirected to the federal Pell Grant program [grants for low-income Americans], helping to boost the number of Pell grantees from 6 million in 2008 to nearly 10 million in 2012." The administration fought to keep down interest rates on student loans. It is also fighting for legislature that holds states and institutions of higher education accountable for keeping costs down by rewarding those that do and withholding funds from those that don't.

But will it be enough?

The University of Chicago Consortium on Chicago School Research has long asserted that, when families have a better understanding of financial aid and their options, they make choices that are best for them. Obama's new Shopping Sheet initiative, which would require colleges to clearly lay out students' options, may have a significant impact. Espenshade says that the clearest solution would be for the universities themselves, perhaps in response to federal pressure, to slow the increase in tuition, room and board. If they held costs to no higher than the rate of inflation, it would certainly help.

Espenshade also opines that the college rankings only drive up college costs. "It's expensive to be in this arms race," he says, adding that it takes money to be at the top of those lists and that universities, especially those among the elite, spend a significant amount of money competing with each other.

Why does college cost so much? The reasons aren't simple, and neither are the solutions. There's nothing simple about the 42 percent increase in tuition at public colleges over the past 10 years.

The best current students and people planning to go to college can do is stay informed. Students can only make decisions that are best for their families if they have all the facts.

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