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COLLEGE COSTS AND PRICES: SOME KEY FACTS FOR POLICYMAKERS

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Tuition is rising, more students are in debt and at higher levels than ever before, and pressure is mounting from every direction and in both political parties—from the White House to state legislatures to overwhelmed parents and students—to do something about it.

On the other hand, many colleges and college systems across the country have become more innovative and resourceful in providing higher education at lower cost, reducing expenditures on business operations, taking advantage of new technology, and redesigning instruction to make better use of expensive faculty time. So why hasn't this translated—usually—into costs savings for students? A few key facts about higher education costs and prices may provide some context for the current policy debate.

What does it actually cost to provide a public college education?

Public four-year colleges in the United States spend an average of about $14,000 per year per student providing undergraduate education, while two-year colleges spend $9,000. Put together, the average across sectors is about $12,000 per full-time student. States have different mixes of high- and low-cost institutions, research universities and community colleges, but the average cost of education in states is remarkably consistent. In 37 out of 50 states, average costs range from $10,000–$14,000. These numbers, estimated based on the most recent federal data available (2011–12), are for actual instruction, student support, and administration; extras like food service, student health centers, and athletic programs are not included.

How much of the cost is covered by tuition?

Even after years of sharp increases, tuition revenue remains a long way from covering the full cost. Average state resident undergraduate tuition in 2013–14, according to the College Board's Trends in College Pricing, was $8,900 for four-year colleges and $3,300 for two-year colleges—far short of the actual cost of education, even when students receive no direct financial aid.

To make up the difference, state and local governments contribute about $5,900 per student per year in taxpayer subsidies that keep tuition lower than it would otherwise be, according to the 2011–12 finance survey by the State Higher Education Executive Officers (SHEEO) association. The subsidies create "invisible scholarships," an indirect form of financial aid that many students are not even aware they receive. Overall, public support amounts to 53% of total education revenue (mostly from state taxpayers, but also from local community college taxing districts in some states). The proportion has declined steadily from 77% nationally in the late 1980s, a fact which explains much of the growth in tuition charges over that time.

How do states differ in tuition and public support?

While $5,900 is an average, states vary widely in how big a share of education costs they pay and how much they charge students in tuition. At one end of the spectrum, Wyoming pays the vast majority of the costs (86%) and charges relatively low tuition; at the other end, New Hampshire contributes very little from taxpayer funds (16%) and public institutions charge tuition for most of the cost of education.

During the Great Recession, states that experienced the fastest tuition growth tended to be the ones with the worst budget problems—places like California, Arizona, and Florida—while budget cuts and tuition increases were more modest in other states. State and local subsidies for higher education dropped 11% nationally during the recession, and much more in states where the downturn was worst. Taxpayer support actually increased by a total of $600 million in the 13 states least affected by recession, but dropped $5.6 billion in the 11 hardest-hit states.

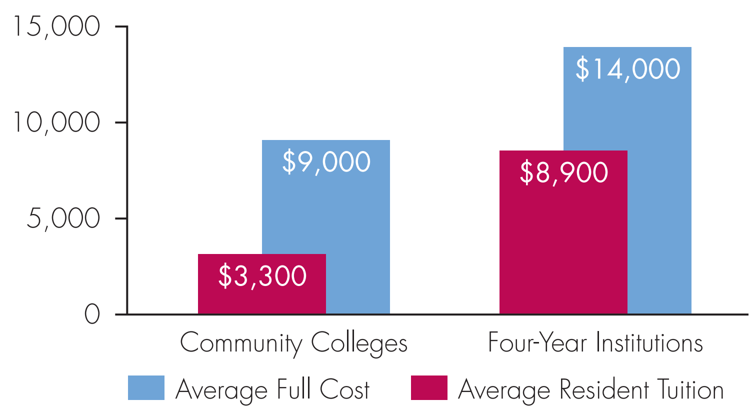
At four-year colleges in the worst-off states, tuition rose by $2,800 from 2006–07 to 2013–14, while in those with the smallest spike in unemployment rates—such as New York, Maryland, and Iowa—it rose by an average of $1,200. Even in those states, the recession was challenging, and the tuition increases were substantial—just not as high as in other states.

If colleges are cutting costs, why isn't tuition going down?

Overall, during the recession, increases in tuition rates and enrollments generated more tuition revenue than was lost from state appropriations. According to the SHEEO survey, total educational revenues for public higher education actually increased nationally, in inflation-adjusted terms. But a sharp spike in enrollment, largely driven by a weak employment market, meant that revenues per student decreased from about $12,000 to about $11,000 between 2006–07 and 2011–12. In other words, institutions were forced to find ways to operate with less money for each student enrolled. If they had maintained the same rate of spending per student, colleges would have had to raise tuition even more. So in one sense, they did pass savings on to students, and tuition increases could have been even higher.

Some of the efficiency that institutions realized in the recession was possible because the United States already has an extensive system of public higher education. It is usually easier and cheaper to add students to an existing college—by adding course sections, temporary instructors, portable buildings or leased space, etc.—than to start a new one from scratch. The severity of the budget cuts, however, also put pressure on states and institutions to find new ways of doing business beyond relying on economies of scale. Many redesigned or eliminated high-cost courses and programs, streamlined business processes, reduced energy and maintenance costs, and found other ways to save.

College tuition sticker prices compared to the cost of providing higher education



Sources: Baum and Ma, *Trends in College Pricing 2013*, National Center for Education Statistics, *Integrated Postsecondary Education Data System, (2011-12).*

But there are competing demands for any education dollar, including one saved through increased efficiencies, and minimizing tuition increases is not always at the top of the list. If not simply going to fill a hole left by declining state support, savings from improved efficiencies can be used to raise (or restore) faculty salaries, chip away at deferred maintenance, or hire additional staff to keep class sizes or advising ratios down, among other things. (And yes, savings can also be used to increase administrators' compensation, build climbing walls, or expand athletic programs.) Ultimately many institutions will increase tuition as much as they believe state regulators, their students' finances, and their potential competitors will permit.

There are exceptions. Institutions such as Austin Peay University (Tennessee), Valencia College (Florida), Columbus State University Community College (Ohio), and University of North Carolina at Pembroke all increased tuition at a slower pace during the recession than comparably situated colleges in their states. Leaders at these institutions, which serve large numbers of low-income students, deliberately made lower price increases a part of their strategy to serve their states and communities. Some states, too, such as Maine (for community colleges), and Maryland (for four-year universities), found ways to freeze or limit tuition increases during the recession.

Other institutions have focused on ways to contain student costs other than limiting tuition, including providing lower-cost campus housing (Georgia State), using open source textbooks (University of Minnesota), encouraging transfer from community colleges (University of Central Florida), or developing alternative pathways to a degree (Northern Arizona). None of these initiatives, however, has yet come close to achieving the same scale and impact on affordability as tuition policy and state budget decisions.

How do institutional subsidies differ from state financial aid?

Taxpayer subsidies to institutions keep tuition low for state residents, but are not usually considered "financial aid." Instead, discussions about financial aid focus on the much smaller investment by states in official need and merit grant programs, which average about $700 per student nationwide—just a fraction of the total public subsidy. State aid policy may reflect a particular philosophy about fairness or efficiency, whether aid is need or merit-based, broadly distributed or narrowly targeted. But the same philosophy is rarely applied to the much larger investment in affordability made through institutional subsidies.

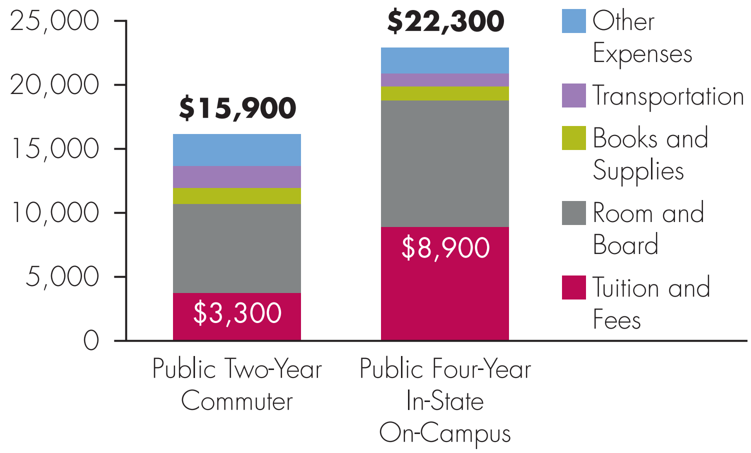
In practice, though, institutional subsidies may unintentionally distribute public funds according to need and merit. Subsidies to community colleges, where many low-income students end up by choice or necessity, could be seen as a form of need-based aid. Subsidies to selective four-year colleges, on the other hand, could be a form of merit-based aid, since only students who are selected for admission get the taxpayer-funded discount.

What are students' total education expenses?

Students may not always be aware of the subsidy they get from state and local governments, thinking that their tuition dollars cover it all. For their part, however, policymakers sometimes ignore the costs other than tuition that students have to pay to go to college.

Students have additional direct expenses for books and transportation, as well as for room, board and other living expenses. It is true that students would have to live and eat somewhere even if they

Average student price (before financial aid) to attend college, 2013–14



Source: Baum and Ma, *Trends in College Pricing, 2013*

weren't attending school (though doing so might not be as costly as it is on or near many college campuses). On the other hand, by enrolling in courses, students have less time available to work, so economists often focus on the "opportunity cost" of being a student—the wages they are not earning when they are spending time preparing for and attending class. Calculations of that cost, based on the types of low-wage jobs available to recent high school graduates, turn out about the same as many estimates of basic living expenses. Either way, the estimated average total expense from the College Board's Trends in College Pricing—$15,900 for community colleges and $22,300 for four-year schools—is probably pretty close to the mark.

Is lower tuition always better?

Tuition can clearly be too high and create an insurmountable financial barrier for students. But can it be too low? Researchers and economists have different opinions, but it is worth considering the potentially positive role tuition plays. On the one hand, it provides an additional stream of revenue for institutions that they can turn to when states are unable or unwilling to sustain their support. It can provide a strong institutional access incentive to enroll more students, as well as the budgetary means to do so, and is less subject to the political whims or economic fortunes of the state capital. When governments control prices for something but do not provide enough subsidy to meet demand, shortages can result.

If set at an appropriate level relative to students and families incomes, tuition can also provide an incentive for students to use resources wisely. People sometimes place more value on goods and services that have a price, and may not perceive as much value in free or extremely low-priced education.

On the other hand, many low-income students and families are confused about the real cost of higher education, with its opaque and unpredictable system of federal, state, and institutional financial aid. Low sticker price tuition is the easiest possible way to communicate affordability, especially at institutions like community colleges, where most students would qualify for need-based aid anyway.

The evidence from states and countries that have (or used to have) free or very low-priced education, however, is mixed. Ireland and several Canadian provinces experienced rising enrollments when they imposed tuition constraints, but in England and Australia, enrollment rose as tuition went up, perhaps because institutions then had more resources and incentive to expand. California has arguably expanded access to community college by keeping tuition near zero, but in the last recession some colleges found themselves unable to meet demand for courses, as colleges in states with higher tuition levels could do with the additional resources tuition brought in.