

Why Is College So Expensive?

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by Angelica Gonzalez and Courtney O'Sullivan

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Soft consumer demand in a weak economy has led many businesses to cut prices. But this is not the case in the market for higher education. Entering college freshmen and returning students face ever-higher tuition and fees. In fact, tuition at American universities has been increasing faster than inflation for the past 30 years.



Dallas Headquarters:
12770 Coit Road, Suite 800
Dallas, TX 75251
972.386.6272
Fax: 972.386.0924

www.ncpa.org

Washington Office:
601 Pennsylvania Avenue NW,
Suite 900, South Building
Washington, DC 20004
202.220.3082
Fax: 202.220.3096



According to the College Board, from the 1979-1980 school year to the 2009-2010 school year, average tuition and fees at private four-year universities rose more than 175 percent — from \$9,501 to \$26,273 (in 2009 dollars). Over the same period, in-state tuition and fees at public four-year institutions rose more than 220 percent — from \$2,174 to \$7,020.

Where Is the Money Going?

Much of the increased spending is going outside the classroom. For example, according to economist Richard Vedder, at four-year U.S. colleges and universities:

- The ratio of teachers to students remained relatively stable, at about seven teachers per 100 students from 1976 to 2000.
- In contrast, the ratio of nonteaching staff members to students doubled from three to six per 100 students from 1976 to 2000.

This suggests that less money is being spent on students' education and more is being spent on noninstructional activities, such as administration and faculty research.

More universities are beginning to compete on providing the best college “experience,” instead of focusing on the end product by educating students to earn a degree. Schools are building lavish student unions, first-rate gym facilities and expensive high-tech support centers. The Delta Cost Project on Postsecondary Education Costs, Productivity and Accountability reports that:

- Institutional spending per fulltime equivalent student for student services — such as student organizations, intramural athletics and career counseling — rose more than 36 percent at private research universities from 1998 to 2008, after adjusting for inflation.
- By contrast, institutional spending on instruction increased only 22.4 percent at private universities.
- At public research universities, student services spending increased 20.1 percent and instructional spending rose just 10.1 percent over the same time period. [See the figure.]

Are High Costs Producing Better Results? The number of total degrees awarded per 100 fulltime equivalent students enrolled has not increased much in recent years, according to the Delta Cost Project:

- Private research universities awarded 31 degrees per 100

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fulltime equivalent students enrolled in 2006.

- This is only one more degree than was awarded in 2002.
- Public research universities awarded 25 degrees per 100 fulltime students in 2006 compared to 23 in 2002.

Universities are also spending more per degree awarded:

- Private research universities spent \$83,054 per degree completed in 1995.
- By contrast, private research universities spent \$109,954 on education and related spending (direct and indirect spending for instruction and student services) per degree completed in 2006 — a 32 percent increase.

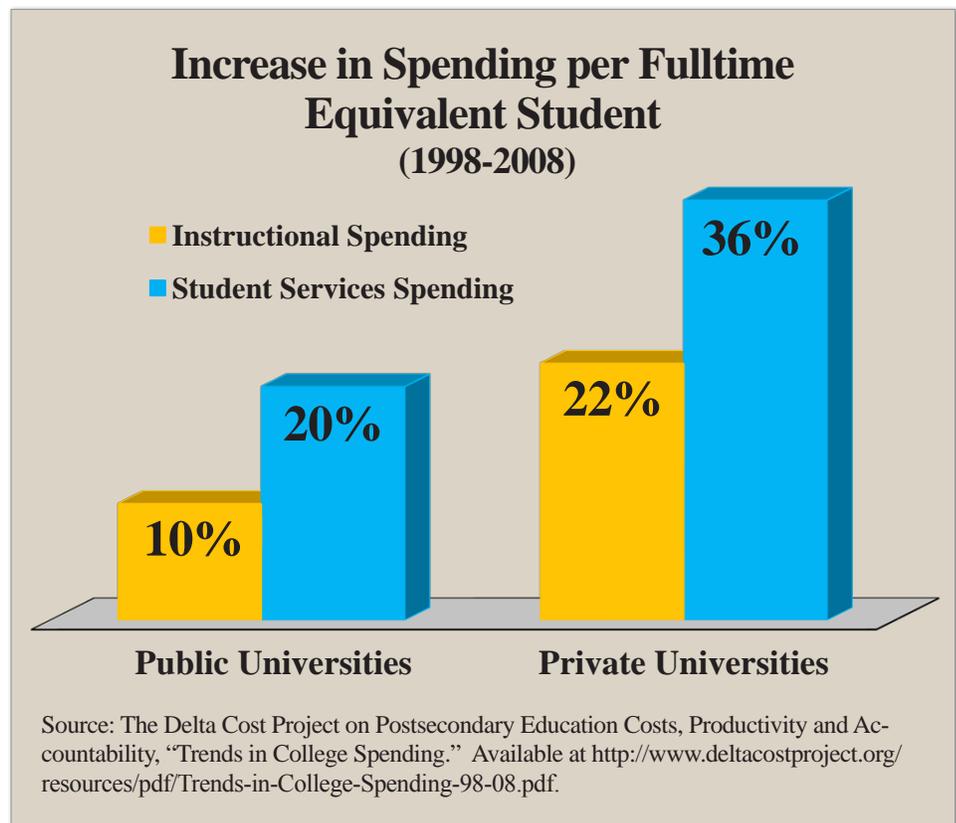
- Spending also increased at public research universities, but less dramatically — \$56,743 per degree completed in 2006 compared to \$53,261 in 1995.

One reason costs have increased is because students are taking longer to graduate. The share of students completing a bachelor's degree in four years or less fell from about 45 percent in 1977 to 31 percent in the 1990s, according to a National Bureau for Economic Research (NBER) report.

A separate NBER study found that students are also spending less time studying. For example:

- On the average, fulltime students reported studying 24 hours per week in 1961.
- Students reported only 14 hours of study per week in 2003.

After ruling out possible explanations, such as innovations



in technology, work status and parents' education levels, the researchers concluded the most plausible explanation for the decreased study time is falling academic standards.

What about Student Aid? An increasing proportion of the cost of college education is paid for with federal aid, much of it in the form of student loans. Between 1999 and 2009, total federal aid to college students rose from \$61.1 billion to \$116.8 billion, according to the College Board. Including state aid, total government subsidies nearly doubled from \$66.6 billion to \$126.2 billion. Indeed:

- The average amount of a federal student loan increased 180 percent from 1990 to 2008, after adjusting for inflation.
- Students borrowed \$1,637 in federal loans (in 2008 dollars)

during the 1990-1991 school year, on the average.

- By contrast, students borrowed an average of \$4,585 during the 2008-2009 school year.

As a result, during this period, the portion of average tuition and fees at a four-year public university financed by federal loans rose from less than 60 percent to about 75 percent.

Conclusion. Rising government subsidies have increased the quantity of education demanded. This means that the rising cost of a college education is due in large part to the increased financial aid available rather than any general improvement in the quality of education.

Angelica Gonzalez is a research assistant and Courtney O'Sullivan is an editor with the National Center for Policy Analysis.