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# Is College Tuition Really Too High?

The answer depends on what you mean by college.

By **ADAM DAVIDSON** SEPT. 8, 2015

To understand the feeling of crisis that many see in higher education right now, it's useful to start with some figures from 40 years ago. In 1974, the median American family earned just under \$13,000 a year. A new home could be had for \$36,000, an average new car for \$4,400. Attending a four-year private college cost around \$2,000 a year: affordable, with some scrimping, to even median earners. As for public university, it was a bargain at \$510 a year. To put these figures in 2015 dollars, we're talking about median household income of \$62,000, a house for \$174,000 and a sticker price of \$21,300 for the car, \$10,300 for the private university and \$2,500 for the public one.

A lot has changed since then. Median family income has fallen to about \$52,000, while median home prices have increased by about two-thirds. (Car prices have remained steady.) But the real outlier is higher education. Tuition at a private university is now roughly three times as expensive as it was in 1974, costing an average of \$31,000 a year; public tuition, at \$9,000, has risen by nearly four times. This is a painful bill for all but the very richest. For the average American household that doesn't receive a lot of financial aid, higher education is simply out of reach.

Tackling this crisis is now a political issue. President Obama has proposed making community college available to nearly every American. Hillary Clinton, Bernie Sanders and Martin O'Malley have all announced plans to increase federal funding for college, if elected. Those on the right

are also offering solutions, though they tend to consider government spending part of the problem. Donald Trump says he will cut the Department of Education “way, way, way down.” Scott Walker successfully cut \$250 million from Wisconsin’s budget for higher education. Jeb Bush has focused far more attention on primary and secondary education — opposing tenure for teachers, advocating “school choice” — but he promotes his cutting back of affirmative action in Florida’s public universities as an example of reducing government’s role in education.

Higher education is a fascinating, complex business. Its pricing dynamics ripple throughout the rest of our economy, in effect determining who will thrive and who will fail. What’s more, the product of this particular industry is not just an end in itself. Education can have enormous personal benefits for those who acquire it, but it also has external benefits to the rest of society. Education exerts something of a multiplier effect; 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.

For young adults from educated, middle-class families — the people who will find a way to get through college despite the costs — rising college tuition is a personal challenge. But the great national crisis is the fact that too many other young adults are not going to college or, if they do, 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.

**An estimated 21** million students attend at least some classes in a postsecondary institution. Like many categories of consumer products, though, colleges and universities do not constitute a single, cohesive market. The larger industry can be broke down into at least three distinct higher-education markets whose offerings, customers and business

priorities share little overlap. One of them comprises the 200 or so highly selective schools with national, and even international, reputations. These include the most elite schools, like the Ivies, but also any private institution with especially strong brand recognition. Such schools enroll between 2 percent and 10 percent of all postsecondary students, depending on how “elite” is defined, and taken together they show all the hallmarks of a well-functioning competitive market. They vie with one another for the best students in the country and the world. Huge amounts of information about them are readily available to consumers, so it is very unlikely that any of them could deceive potential students about the benefits of the degrees they offer. The enormous financial value (and cultural currency) of the product they are selling, an elite credential, is well understood. Nearly everybody admitted to these schools graduates within four years.

The next educational marketplace consists of the large regional powerhouses, home to another 20 percent or so of the higher-ed student population. Usually public, with names that often begin with “University of,” these schools have strong reputations in their home states and often among the residents in neighboring states. The best ones are more likely to be found in the South or West. Lawrence Katz, a professor at Harvard and a leading scholar of education economics, co-wrote a famous paper a few years ago with Claudia Goldin in which they pointed out that states that had elite private schools in the 1890s are less likely to have developed these strong, upper-tier public schools. The reason is as obvious as it is depressing: The powerful private schools lobbied politicians to keep public institutions underfunded. That helps explain why the university systems in North Carolina, Texas, Indiana, California and elsewhere outside the Northeast are held in such high regard. (The University of Massachusetts and SUNY systems, by contrast, do not have the same reputations.) Public universities have always been cheaper than their elite private counterparts, but the gap has been closing slowly as states stop funding the schools as generously as they once did.

Finally, there are the nonselective public, community and private for-profit colleges that admit nearly every paying applicant. A vast majority of

people pursuing postsecondary education will start in these schools. They vary greatly in quality. Some provide a solid education, especially in technical expertise, that can lead to higher-paying, skilled jobs in manufacturing, health care and other fields. Some of these places, especially the private for-profit ones, seem to be little more than a scam, recruiting students, taking their government-funded loans and offering them a degree of minimal worth. Well more than half of all new students at four-year schools in this segment won't finish. But still they will be burdened with debt or will default, leaving taxpayers to foot the bill.

If colleges and universities were just another consumer good, like cars or clothes, we wouldn't worry as much about their cost. The rich pay more for the best stuff; the poor pay less for the worst. That's the market at work. But higher education is both an individual and a public concern.

We know this from historical experience. In 1900, less than 10 percent of the U.S. population had a high-school degree, and many couldn't have received one if they wanted. There just weren't enough public high schools. In the beginning of the 20th century, a nationwide effort was undertaken to provide free secondary schooling to every American child. By the end of World War II, half of all young American adults had high-school diplomas; by the 1970s, a vast majority did. The country's rapid growth during that century — the rise of industry, the development of technology, the dawn of a vast middle class — would be hard to explain without acknowledging the spread of education as a cause. From 1900 to 1980, every generation born in the United States had about two more years of schooling than the one before. This transformed a nation of semiliterate farmers into the world's most-educated country. But progress has slowed since 1980. In the 1970s, the United States ranked first globally for college attainment; today, among people 25 to 34, it ranks 14th, having fallen behind many other industrialized nations. The Organization for Economic Cooperation and Development has singled out the United States as being particularly deficient in one measure: the chances are greater than 70 percent that an American will not attend college if his or her parents do not have a college degree.

This history was laid out most clearly in the 2008 book “The Race Between Education and Technology,” by Lawrence Katz and Claudia Goldin, which transformed how economists think about education, individual success and our collective fortunes. Put simply: Without greater access to higher education, the United States is likely to have even greater income inequality, a huge segment of the population will see its income fall and some of our core assumptions about national identity — ours as a land of opportunity, a prosperous democracy — will be at risk.

Since the 1980s, most states have decreased their per-student spending on public higher education, some of them quite substantially. Federal aid has risen, but not enough to make up for the state cuts and significant increases in enrollment. Tuition, meanwhile, has gone up far more than inflation. For an explanation why that’s so, it’s helpful to identify analogues in the business world. Like hotels and apartment buildings, for example, colleges and universities own expensive real estate that is parceled out for use by paying customers; this means the overall rise in real estate costs have made running a university more expensive. Like airlines or Starbucks, they have a wide variety of customers with varying ability and willingness to pay. First-class and latte customers can be seduced into paying top dollar, but much of the revenue comes from people who can’t afford the fancy stuff and just want a seat in coach or a cup of coffee. Like sports teams or, for that matter, cigarette companies, schools obsessively tend to their reputations, hoping to build lifelong brand loyalty among their most fervent customers.

But probably the single most important factor behind the rise in tuition is one that few other businesses share: Students are not just customers; they are also an integral part of the core product. When considering a school, potential students and their parents often look first at the characteristics of past classes: test scores, grade-point averages, post-college earnings, as well as ethnic and gender mixes. School admissions officers call the process through which they put together their classes the “shaping” of the student body. Kevin Crockett is a consultant with Ruffalo Noel Levitz, a firm that helps colleges and universities set prices. He says

that the higher the prices that schools charge, the more options they have in recruiting exactly the students they want.

“I’ve got to have enough room under the top-line sticker price,” he says. A school that charges \$50,000 is able to offer a huge range of inducements to different sorts of students: some could pay \$10,000, others \$30,000 or \$40,000. And a handful can pay the full price.

There’s a provocative analogy to be made with how another industry does its pricing. I called Paul Norman, who owns a company that promotes high-end dance clubs in London, and he agrees that his clubs have much the same challenge as colleges and universities. Their appeal to new customers is based, in large part, on the mix of customers who are already there. The biggest spenders are wealthy men from Russia and the Middle East. But they won’t spend a lot of money in a club filled with people just like themselves. Women who have the right look — posh in Chelsea, a bit more flash in Mayfair — are admitted free and are offered free drinks, but only if they arrive early in the evening and happily mingle and dance. He said that clubs do their own version of enrollment shaping. “It’s good for the crowds if you have a mix of ethnicities,” Norman told me. On any given night, he said, about a quarter of the clubs’ guests get in free. It’s an odd model: giving your most valuable product away to some and charging a lot to others. But, Norman said, if everybody paid the same price, nobody would want to come, and in a few weeks clubs wouldn’t be able to charge anyone anything.

Similarly, if an elite school like Harvard or Princeton insisted on admitting only students willing to pay the full freight, they would soon find they weren’t so elite. Many of the best teachers would rather go elsewhere than stay in a gated, rich community. The most accomplished rich kids could be lured away to other schools by the prospect of studying with the best students and teachers. So, a school with the same high sticker price for everyone would be unlikely to have the attributes — high test scores, Nobel Prize-winning faculty, a lively culture — that draw national or international attention.

While blue-chip schools charge the most, their economic fundamentals suggest that they are, if anything, underpricing their product. According to the National Center for Education Statistics, the average bill at the top-tier schools is just over \$50,000 a year. Yet these schools spend considerably more than \$100,000 a year educating each student, with the difference made up from government funds, grants, alumni gifts and their often-huge endowments. Fewer than half of their students pay even that discounted amount. Most of the top-tier private schools say they won't factor in an applicant's ability to pay when considering admission and promise that everyone admitted will be given the financial aid necessary to attend. Generally, parents pay no more than 10 percent of their income. Students whose parents make less than \$65,000 (or, at Stanford, \$125,000) usually pay no tuition. And there are generous aid packages available to all but the very wealthiest students.

The pricing of college and university tuition used to be based on gut feelings, Crockett told me. Until around 1992, administrators would glance at what their peers were charging and come up with a number. Today, the process involves a level of mathematical and statistical rigor that few other industries could match. Crockett uses a team of statisticians and data analysts, the latest in software and data with hundreds of variables on students' ability and willingness to pay, academic accomplishments, most likely choices of majors, ethnicity and gender, and other attributes. To the public, one number is released: the cost of tuition. But internally the school likely has dozens of price points, each set for a different group of potential students. The tools can determine how valuable a potential student is to the school's overall reputation: more points for sports and scholarly accomplishment, fewer for the telltale signs of a likely dropout.

Because a majority of selective schools have adopted these sophisticated tools for shaping enrollment, there is more competition to attract the students who are most appealing: those with high G.P.A.s and test scores, high likelihood of graduating, the right sort of major — English majors, for example, effectively subsidize engineering students because engineering is more expensive to teach. Typically, fierce market

competition leads to lower prices, but among elite schools, the opposite occurs, paradoxically. They often find that raising prices enables them to offer greater benefits to the most coveted potential students. (It also allows them to take part in the amenities race: nicer dorms, better food, a climbing wall: things that are regarded as essential to attracting those coveted students.)

Counterintuitively, the surest way to improve equality of access to elite schools might be to raise the cost of admission even further. Rich students paying the full price would make more aid, in money and educational support, available to be transferred to the best students from poor families and lower-performing schools. For most people who graduate from top-tier schools, debt is easily managed. Their average loan outstanding upon graduation is \$23,000, but these students — no matter what they major in — get a high wage-premium, making an average of \$20,000 a year more than they would have had they not gone to the school. Students entering college today are confronted with far more costs — the average textbook budget is \$1,200 a year now — and this can be quite shocking to parents for whom college was much more affordable. And there are, no doubt, individual stories of deep hardship. But as a group, students who attend more-selective schools are among the luckiest in our society. In effect, they live in a different economy than the rest of the nation, one with a rich array of career opportunities, steadily rising wages and far less unemployment.

**The midtier public** schools face a different set of challenges. Their tuition increases are being driven largely by state governments' unwillingness or inability to raise per-student financing. Sandy Baum, a senior fellow at the Urban Institute, says that in the 2001-2002 school year, public schools received from 44 percent to 62 percent of their funding from state governments. Only a decade later, those levels had decreased to 27 percent to 51 percent. On average, states have lowered their per-student funding by 25 percent over the last 15 years. Some — Louisiana, Wisconsin, Kansas and Arizona — have cut their support sharply in the past few years. The money allocated for public education is a tempting target for governors facing shortfalls. Education is one of the largest items in a state budget, and



educators don't have the same lobbying power as more concentrated business groups. Republican governors with national political aspirations have found that "taking on" public education can enhance their popularity among primary voters.

The economic thinking behind public-university cuts can be confusing. Studies have shown that cutting support for public education balances budgets only in the short term. In his book "Higher Learning, Greater Good," Walter W. McMahon, emeritus professor of economics at the University of Illinois, showed that a postsecondary degree has a return on investment of roughly 15 percent a year, meaning that every \$100 invested in education brings an additional \$15 in income for every year of a person's working life. This expands a state's economy and generates enough tax revenue to more than pay back the initial outlay on education. Someone who graduates from a four-year institution earns about \$1 million in additional future earnings.

Flagship public universities — like the University of California, Berkeley, or the Universities of Michigan and Virginia — often behave like elite private schools, using aid to attract the best students, typically the ones who would probably go to a decent school without government support.

That means that high-achieving students from educated families receive a disproportionate share of financial assistance, while those at the bottom, struggling students from families ill equipped to support their educations, receive a disproportionately small share. If you add up all the financial aid available from federal, state and local governments and from nonprofit institutions, there is enough money already out there to support everybody's education. The problem is that aid is distributed unevenly.

Nonselective schools, the ones serving our most at-risk and in-need students, are struggling for money. Obama recently proposed making community college free for anyone able to maintain a G.P.A. of 2.5 while in school and whose parents make less than \$200,000 a year. The program

would be surprisingly cheap, costing around \$6 billion annually, a pittance in the federal budget.

Still, it doesn't fully address the crisis confronting our system of community colleges: Lots of people enter, but most won't graduate. Some four-year schools have truly abysmal records when it comes to graduating their students in six years or less. Medgar Evers College in the CUNY system has a graduation rate of 8 percent as of 2013. Entire state public-university systems with collective graduation rates below 50 percent include Arkansas (39.7 percent), Montana (45.6 percent) and Alaska (30.6 percent). Baum says that among nonselective, four-year, for-profit schools, graduation rates above 50 percent are the exception, and a few, especially online schools, have rates well below 10 percent.

Nearly every education expert I spoke to mentioned a remarkable new program that has had the greatest success yet in improving the graduation rate of at-risk college enrollees. The experimental program was introduced at one of the nation's most-troubled community-school systems, the City Universities of New York, whose overall graduation rate has been as low as 16 percent. CUNY administrators determined that many of their students don't just need cheaper tuition. They need support. Coming from families and communities with few, if any, college graduates, they are poor and every day have to calculate the trade-off between investing in their long-term education and paying their short-term bills. CUNY's Accelerated Study in Associate Programs (ASAP) offered some common-sense interventions. Students received help paying their tuition and other fees; they even received free passes for public transportation. Most important, perhaps, they received what the school calls "mandatory and intrusive guidance" from counselors who helped them choose classes, get through rough patches and focus on the long-term benefits of finishing school. Three years into the program, an outside education-research firm began an experiment: A group of 900 entering freshmen, all of whom had developmental needs, was randomly assigned to ASAP. They and a comparison group that received no special intervention were monitored for three years. The graduation rate among ASAP students who achieved an

associate's degree in three years was twice as great as that of the comparison group. The overall ASAP graduation rate at CUNY has risen to 52 percent.

Henry Levin, an economist at Columbia University's Teachers College, conducted an exhaustive analysis and concluded that, while it costs more upfront — at \$19,000 a student, ASAP isn't cheap — the benefits to New York taxpayers were great. Those with associate's degrees would earn so much more over their lifetimes that they would pay an estimated \$165,000 in additional taxes, while saving the state and city more than \$40,000 in criminal justice, health and public-assistance costs. Pilot versions of the program are now being tried at several Ohio schools.

College aid — all the federal and state grants and subsidies, the various scholarships and aid packages offered by schools and foundations — evolved in piecemeal fashion over decades. Considered as a whole, it is a bizarre system. Students who go to private nonprofit schools, disproportionately children of middle-class and wealthy parents with college educations, receive an average of \$25,000 a year in aid. Those who go to less-selective public schools receive an average of \$13,500 a year. And students who attend public community colleges, who are most likely to come from disadvantaged backgrounds and parents without college degrees, receive an average of \$8,000 a year. In other words, our system gives three times as much aid to the least needy as it gives to the most.

This makes no economic sense: Once students drop out of community college, taxpayers will continue to pay their bills. That's not called education funding; it's called welfare or criminal-justice or health care expenditures. The difference is significant. In the language of economics, education funding is an investment; it more than pays back its initial costs over time. The other expenses are known as transfer payments; which means they make society poorer. In an economy that demands and rewards education, those who have it will pay the bills for those who don't.

***Correction: September 8, 2015***

An earlier version of this article omitted the name of the author with whom Lawrence Katz wrote a paper. She is Claudia Goldin. Adam Davidson is a founder of NPR's "Planet Money" and a contributing writer for the magazine.

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