Cap in Hand:

The High Price of Higher Education

A college degree has become an indispensable credential in today's workforce. But with the cost of postsecondary education soaring, a degree is also slipping out of reach for more people. What's behind tuition inflation, and can its trajectory be altered?

The price of higher education started soaring decades ago. A 1997 *Time* magazine article, "Why Colleges Cost Too Much," reported that after a lengthy period of stability, tuition increased at a rate twice that of the overall cost of living between 1977 and 1997. Since going through the roof in the '90s, the cost of higher education has continued spiraling upward. In the decade from 2000–01 to 2010–11, tuition and fees at public four-year colleges and universities increased at an average rate of 5.6 percent per year above the rate of general inflation, according to *Trends in College Pricing 2010*, published by the College Board Advocacy and Policy Center, a nonprofit association of more than 5,700 schools, colleges, universities, and other educational organizations.

For the current school year, the price tag varies based on a student's specific arrangement and geographic location, according to College Board figures. At the high end of the spectrum, students living on campus at private four-year colleges and universities faced a national average of $27,000 for tuition and fees with an additional $9,700 for room and board. Add in books (another soaring expense) and other fees, and the total surpasses $40,000 for the year. Students living on campus at public four-year schools spent an average of $7,600 for in-state tuition and fees and $8,535 on room and board (and more on books and supplies), incurring an overall annual expense averaging slightly more than $20,000. At the other end of the spectrum, students attending two-year schools averaged $2,700 for tuition and fees, $7,300 for room and board, and more than $14,000 for total expenses.

Students at four-year schools in the Southeast had it a little better financially than students in other regions. Students with in-state residency paid an average of $2,000 below the national average for public school tuition, fees, and room and board, while students at private schools paid almost $5,000 below the national average for the same expenses. Students at the Southeast's two-year colleges received no geographical benefit, as the region's prices mirrored national averages.

At some point, rising prices typically reach a threshold at which demand is reduced. With higher education, that reduction has yet to occur. However, as prices continue to rise, students and educators alike are looking for ways to ensure the affordability of higher education. This quest may significantly reshape the landscape of higher education.

Table 1
Debt levels of college seniors in the Southeast in 2009

State	Average debt (in dollars)	Rank among states	Percentage of graduates with debt	Rank among states
Georgia	16,568	48	58	24
Louisiana	19,677	41	48	43
Tennessee	20,678	32	53	35
Florida	20,766	31	49	41
Mississippi	22,566	20	57	28
Alabama	24,009	16	51	38

Note: The U.S. average is $24,000.
Source: Project on Student Debt, Student Debt and the Class of 2009

Demand stronger than ever

So far, the rising price of higher education hasn't scared away the students or parents. In the decade spanning the 1999–2000 and the 2008–09 academic years, the number of full-time and part-time students in the United States rose from 15.3 million to 19.1 million, a whopping 25 percent increase, according to the *Digest of Education Statistics*. Accompanying this influx of college students is a rise in the percentage of Americans with degrees. In the College Board's *Education Pays 2010* report, the percentage of Americans between the ages of 25 and 34 with a four-year college degree grew from 29 percent in 2000 to 32 percent in 2009, after having hovered around 24 percent through the 1980s.

In many cases, incoming students do not have cash on hand to fund the escalating tuition price tag, leading them to turn to grants and federal tax benefits for help. The College Board reports that the average of grant aid and federal tax benefits per student for the 2010–11 school year is $6,100 at public four-year schools, $16,000 at private nonprofit four-year schools, and $3,400 at public two-year colleges. Two-thirds of students at four-year schools, public and private, currently receive grant aid.

However, for many Americans, their increasing appetite for higher education (fueled in part by the recent recession) has led them to bite off ever-larger amounts of debt. Last August, the *Wall Street Journal*, quoting figures from the Federal Reserve, FinAid.org, and FastWeb.com, reported that for the first time ever Americans owed more on outstanding student loans ($829.79 billion) than revolving credit ($826.5 billion).

That pinnacle was reached after the sustained upward trajectory of student debt became apparent. In 2004, graduating college seniors carried an average debt of $18,650, but by 2009, this figure had risen to $23,200, according to the Project on Student Debt by the Institute for College Access & Success. This rise reflects an annual growth rate of 6 percent per year, slightly more than the growth rate of tuition and fees during that same span (5.6 percent). In the Southeast, graduating seniors in all but one state fared better than the national average (see table 1).

Table 2
Educational attainment and annual income

Degree attained	Average annual income (in dollars)
Professional degree	100,000
Doctoral degree	91,900
Master's degree	67,300
Bachelor's degree	55,700
Associate degree	42,000
Some college, no degree	39,700
High school graduate	33,800
Not a high school graduate	24,300

Source: The College Board

Two factors are behind the greater tuition affordability in the region. One is that the Southeast lacks the concentration of higher-priced private institutions found along the Eastern Seaboard and the Northeast. Additionally, state-sponsored merit-based scholarships help students across all economic strata in the region. Sandy Baum, an independent higher education policy analyst at the College Board who specializes in college pricing and student aid, estimates approximately one in four states has state-sponsored, merit-based scholarships (usually funded by lottery earnings). However, every southeastern state except Alabama has this type of program.

Return on investment remains strong

So what is it that sends so many students (and parents) headlong into this educational spending spree? In most cases, a payoff down the road is the allure. Recent statistics make a case that the benefits of higher education are more important now than ever. In the College Board's *Education Pays 2010* report, annual earnings are compared to the level of education attained (see table 2). The relationship is clear: more education, more income.

But enhanced earning power is only part of the story. The other part concerns the widening gap between those with a bachelor's degree and above and those without a bachelor's degree. The *Education Pays 2010* report noted that between 1998 and 2008, women with a bachelor's degree or higher made 60 percent more than women with high school diplomas did in 1998, but by 2008 the higher-educated women earned 79 percent more, a 19-percentage-point increase. For men in the same age group, those with bachelor's degrees or higher made 54 percent more than did males with high school diplomas in 1998, a gap that widened to 74 percent more by 2008, a 20-percentage-point increase.

Also, even though the up-front debt may be daunting, the *Education Pays 2010* report found that, 11 years after graduation, the average four-year public university graduate's higher earning power made up for being removed from the labor force for four years and for student loans, at 6.8 percent interest. After that period, the graduate is economically ahead of where he or she would have been without a degree.

College students of the future can expect an evolving educational environment with many things changing except the incessantly rising prices.

Is everybody a winner?

But while the benefits of higher education for the individual appear undeniable, an emerging school of thought contends that the high return on investment may not apply to everybody. According to U.S. Bureau of Labor Statistics data, just seven of the 30 jobs expected to grow at the fastest rate in the next 10 years in the United States will require a college degree. "It is true that we need more nanosurgeons than we did 10 to 15 years ago," Richard Vedder, professor of economic history and public policy at Ohio University and founder of the Center for College Affordability and Productivity, told the *New York Times* in May 2010. "But the numbers are still relatively small compared to the numbers of nurses' aides we're going to need. We will need hundreds of thousands of them over the next decade," adding that those aides could receive their training outside the traditional college setting.

Vedder's position raises the question of whether colleges are preparing graduates with the right skills. Rolando Montoya, provost of Miami Dade College, believes colleges are and that they can also take steps to make graduates even more ready for the labor force. "Most of the unemployment among recent college graduates is due to the struggling economy," Montoya said. He added that since data indicate that college graduates historically have fared better in the job market, colleges can enhance graduates' odds by reducing the time it takes to graduate and emphasizing instruction in high-demand fields.

What does the future hold?

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Future costs. The College Board's Baum says there's no reason to think pricing trends for education will change. "It's going to keep going up faster than inflation," Baum said, adding that schools devote ever-larger portions of revenue to staff salaries. "Certainly there's more we can do to increase productivity, but productivity is never going to go up the way it does in industries where new technology and new production methods emerge," he said. "The labor [in higher education] is primarily highly educated, highly skilled. The wages for this type labor have gone up faster than for low skilled labor."

In addition to the rise in labor costs, colleges may be forced to charge more as cash-strapped state governments reduce appropriations for higher education. For the 2009–10 school year, the College Board's *Trends in College Pricing 2010* report showed that government appropriations per full-time equivalent (FTE) student averaged 19 percent lower than a decade earlier, after adjusting for inflation. State appropriations per FTE student dipped 5 percent for the 2009–10 school year after a larger dip, 9 percent, in 2008–09.

Montoya said Miami Dade College's tuition could have risen even more had it not pursued cost-cutting measures. "We cannot operate at a deficit," Montoya said. "A lot of institutions, including ours, are relying more on adjunct faculty, part-time faculty. To teach a class with an adjunct faculty is a lot cheaper." He pointed out another area that has undergone reduction: administrative services, such as managers and clerical staff. Also, increasing numbers of schools are cutting costs by outsourcing services such as security officers and custodians, allowing schools to eliminate expenses associated with health care benefits and paid vacations.

Changing of the guard? The economy will likely affect higher education in terms of the mix of schools. Baum has some ideas about who the winners and losers will be. She foresees the winners being the schools that cater to nondegreed people who have realized that they need a degree to compete effectively in the job market. "The people on that margin are much more likely to get a vocational education, to go to a for-profit or community college," she said. "There will be more and more opportunities for people to need those kinds of labor market credentials. So there's going to be more growth in those areas for that reason."

Baum predicts the losers will come from the private sector of higher education, but only from a certain group. "The schools at the top—the Ivy League schools, Duke, Stanford, etc.—they're doing just fine, thank you," she said. "They have long waiting lists of people able and willing to pay the price." She takes the position that those top-tier institutions should increase their enrollment. "But at the other end of the spectrum, you've got hundreds of small private colleges, regional colleges, that are not selective at all and are really struggling, financially on the brink," she said. "They have trouble enrolling full classes. We will see some of those institutions cease to exist because they have a really high cost model and not enough resources to be really innovative. They are going to have to do something very different because they don't have an easy time differentiating what they offer from what you can get more cheaply." The perilous outlook for smaller private schools was also the topic of "Will Higher Education Be the Next Bubble to Burst?" by Joseph Marr Cronin and Howard E. Horton in the May 22, 2009, edition of *The Chronicle of Higher Education*.

The rise of technology and distance learning. With faculty salaries constituting a major part of a college's budget, many schools are exploring technological innovations for help with budget reductions. "One of the reasons we are able to reduce personnel both at the instructional level and the administrative level is because we are acquiring more technology," Montoya said of Miami Dade College. "You can see the shift in the composition of our expenses. There was a time when our overall human resources accounted for close to 85 percent of our expenditures. Now it has declined to about 75 percent." Montoya said his school has also been able to conserve salaries by hiring adjunct faculty—with the accompanying lower salaries—in addition to incorporating more technology. He added the caveat that greater reliance on technology is not without its own attendant costs: "We need more equipment. We need more software licenses, and we also need the specialized technicians to manage all of that."

Still in its relative infancy, online instruction holds the possibility of providing a more affordable educational opportunity than traditional instruction, but the method is still establishing its foothold in the marketplace.

One use of technology has been the ongoing shift to distance learning. More than 5.6 million students were taking at least one online course during the fall 2009 term, according to the *Online Education in the United States, 2010: Class Differences* report by the United States Distance Learning Association. The report also notes that the total represented an increase of nearly 1 million students over the previous year, a 21 percent growth rate. The report also noted that nearly 30 percent of higher education students now take at least one course online.

At Miami Dade, Montoya notes that the growth of enrollment for online education is about three to four times higher than the growth of more traditional face-to-face offerings.

Despite these advances, Baum thinks distance learning is still finding its footing in the education marketplace. "To date, it hasn't saved money," she said. "Right now, it actually ends up costing more," adding that some institutions charge more tuition for online learning. But she also cited some noteworthy innovations in distance learning. "Carnegie Mellon has great experiments going on, focusing mostly on statistics but also broadening into other areas," she said. "Students learn more and learn more quickly." Baum said when schools across the country gain economies of scale from pooling their online-instruction assets (such as curricula and syllabi), the savings will be significant. "Certainly, there is potential for increasing productivity," she said. "I'm sure it will happen."

Schools innovate their instruction methods, adopt cost-saving technologies, and hire cheaper faculties, but college costs have only continued soaring. Even as schools equip students with the skills required to compete effectively in the job market, students can't escape the financial bottom line. The country's brightest minds either haven't been able to solve the problem or haven't had the inclination. Perhaps one of the country's 20 million college students will find the answer. ∎

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