The Basics
The real reasons college costs so much

With a swelling pool of potential students and financial aid masking true costs, don't expect a break from double-digit increases anytime soon.

By Liz Pulliam Weston

The price tag for a college education rose again last year. Tuition and fees increased 14.1% for public four-year institutions and 6% for private schools, according to the College Board. The retail cost of a college degree has more than doubled in the past two decades, far outstripping the regular rate of inflation.

Parents facing whopping tuition bills have a right to wonder: Why is this happening, and is there any relief in sight?

The answer to the second question is, unfortunately, no. In fact, tuition increases will probably get worse before they get better. That’s because colleges face few reasons to curb prices and lots of reasons to raise them.

Before you panic and give up hope of college-educated offspring, though, we should put these price increases in perspective:

Real cost hasn’t risen as much as sticker prices

Most students don’t pay the “retail” price for college; they pay a discounted rate, thanks to financial aid packages, which have kept pace pretty well with tuition increases. When grants and other non-loan student aid are factored in, the net cost of college -- what students and their parents actually paid to be educated -- rose less than 5% for most students between the 1992-93 academic year and 1999-2000, according to the National Center for Education Statistics. The exception: students attending selective private colleges, who paid net costs that were 6.7% higher at the end of the 1990s than at the beginning.

How the net cost of college has changed

Type of college	1992-1993	1999-2000	**% increase**
Private	$15,098	$15,675	3.82%
Selective private	$20,351	$21,713	6.69%
Public	$8,914	$9,287	4.18%

Figures are inflation-adjusted, 1999 dollars. They reflect the total cost of education (tuition, fees, books, supplies and living expenses) minus any government and institutional grants received.
Source: National Center for Education Statistics.

College is still a pretty good deal

Despite two decades of rising prices, 68% of full-time undergraduates attending four-year colleges still pay less than $8,000 in annual tuition and fees. The payoff: post-college incomes that are 60% higher than those of high school graduates and that, on average, mean $1 million more in lifetime income.

Those reassuring words don’t help much, though, if you’re a parent trying to save for a college education that is projected to cost more than your house, or a student facing 40% fee increases in a single year -- which is the case at some public universities. (Cash-strapped states are cutting back sharply on their appropriations to public schools, which is leading to massive tuition increases.)

How did we get here? Here are three reasons commonly given for college inflation -- along with two more that really explain what’s going on:

Capital spending: Cornell economist Ronald G. Ehrenberg, in his book "Tuition Rising," describes a kind of "arms race" among the nation's top schools to have the best of everything: the best facilities, the best faculty and strong sports teams to engender loyalty among alumni donors.

But it's not just the Ivy League schools that are spending like mad. Colleges that want good rankings with U.S. News & World Report's annual college rankings and other college-rating programs shell out big bucks on ubiquitous high-speed Internet access, bigger and better dining facilities, new gyms and concert halls, apartments instead of dorms for students.

A lot of this spending is fueled by endowment funds, which in the go-go 1990s were swelled by a rising stock market and increased contributions from stock-rich donors. Critics make a good argument that at least some of the largesse should have been used to put a lid on prices.

But schools couldn't have justified this spending if there weren't other factors at work.

Faculty: Half to two-thirds of the typical college's budget goes to paying instructional salaries. So rising paychecks are indeed a factor in higher college costs. But few college profs are getting rich.

The median salary for a full-time college educator is $46,300, according to the Bureau of Labor Statistics. The picture is brighter for those who have tenure: Full professors make an average $76,200, according to the American Association of University Professors.

The tenure system and the lack of mandatory retirement can make it tough to oust high-earning but less productive employees.

On the other hand, colleges are holding costs down by using a lot of non-tenured teachers: graduate students, instructors and lecturers. In fact, only 55% to 60% of the typical college's staff is tenured or tenure-track.

So blaming higher college costs on the teachers alone really doesn't wash.

Productivity: One factor that keeps inflation muted in the private sector is worker productivity. Technology, equipment and experience tend to help the average worker make widgets faster over time. That growing productivity allows a business to create more products for the same cost.

But colleges aren't in the business of making widgets. Those that try to force greater "productivity" out of their professors -- by increasing class sizes or class loads -- often find their strategies backfire. The best instructors leave for better environments, and the colleges' reputations suffer among students and the ranking services that gauge university quality.

There's actually pressure for colleges to be *less* productive, Ehrenberg points out: to shrink class sizes and reduce class loads so professors can spend more time doing research.

The problem with this explanation for rising costs is that it's *always* been true. For the past century, worker productivity in most other fields has soared, while it's remained about the same at colleges and universities. That doesn't really explain the most recent bout of inflation.

Financial aid: Now we're talking about real stuff. As I noted, most people don't pay the sticker price for college. Scholarships, grants and loans reduce the out-of-pocket cost for the majority of students. (Loans just put off the pain, of course, but few students really think about how much the borrowing is going to cost them in the long run.)

As we've seen with the health-care system, if people aren't feeling the real cost of their purchases, they have less incentive to change their behavior. If you're paying the full tab and Elite University jacks up its rates 10%, you might opt for Just Fine State. If enough others followed your lead, Elite might rethink its pricing.

As it stands, however, Elite just needs to boost your financial aid package by 8% or so, and you'll grumble but stay put.

The government has chipped in, as well. Tax incentives like the Hope Credit and the Lifetime Learning Credit, student loan interest deductions and tax-advantaged savings plans like Coverdells and 529 college savings plans have made it easier for many parents to pay for college.

That's not to say we should have less financial aid or get rid of tax incentives -- far from it. The system we've got ensures that nearly everyone has access to higher education. But until higher prices result in a decrease in demand, there's nothing to put a brake on tuition hikes.

Bigger pool of qualified applicants: This is the big kahuna and perhaps the strongest force affecting college prices: demographics.

For two decades ending in 1997, the number of college-age people actually declined. The percentage of this shrinking group that actually attended college, however, shot up: from 47% of high school graduates in 1973 to 65% in 1996. That meant the number of people attending college in the 1990s remained pretty stable.

Now the under-25 set is again on the rise. The number of college-age people is expected to grow from 17.5 million in 1997 to 21.2 million by 2010. The percentage actually attending college is bound to increase further, as fewer and fewer decent jobs remain for those with just a high school education.

Meanwhile, the most selective schools haven't expanded that much, even as the number of qualified applicants keeps rising. That's why the SAT scores that would have gotten you into Harvard a decade ago might not get you accepted at your "safety" school today.

Many other schools have shelved expansion plans -- either because they are state schools with shrinking legislative appropriations or because their endowment funds and giving programs took a hit along with the economy. An economic rebound could reverse that trend, but right now the good colleges have far more applicants than they've got room.

With that kind of demand, college and universities can continue to boost prices almost at will.

3 ways to cope

How can you cope? Some suggestions:

- **Save early and often.**
- **Learn how to maximize your chances for financial aid.**
- **If you don't expect to get financial aid, prepaid tuition plans might be worth investigating.**

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