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Rising Tuition in Higher Education: Should we be Concerned?

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ABSTRACT

The most pressing concern in higher education amongst students, prospects, and parents is high tuition. I sought to assess the magnitude of the problem of high tuition in America and address potential changes that might be made to curb further rises. I found that high tuition is not necessarily a problem as the benefits of a college degree increasingly outweigh the costs. High tuition does not deter people from attending college; it is one of the best investments an individual can make. The only viable change to make is to invest in new online educational technology which has the potential to substantially lower costs, and improve the quality and accessibility of education.

INTRODUCTION

The rapid increase in cost of attending college is a commonly discussed “problem” in higher education. While I will show that high tuition is not a catastrophe, there are many justifiable reasons for concern; high tuition has changed the workings of higher education.

Rises in tuition have amplified the importance of planning to attend college. As recently as the early 1980’s it was possible for individuals to work their way through college, paying for tuition and living expenses without scholarship or financial support from their parents, and only minimal loans (Lisa 2013). Today this is nearly impossible. Parents are expected to bear the tuition of their children (Ferrall 2011: 13). Without the privilege of scholarship or full parental support, substantial student loans are a necessity.

Attending college has transformed from an intellectual pursuit to a financially burdensome venture.

The rapid rises in tuition have adverse effects. The fear of a widespread default on student loans prompted the federal government to pass the "Student Loan Forgiveness Act." Passed in 2012, the legislation provides a fallback for individuals unable to pay their student loans (Armstrong 2012). It will cost billions of dollars of public money (Armstrong 2012), preventing the government from fully funding other necessary programs. This legislation is a result of high tuition.

The rises in tuition are caused by the commercialization of higher education. Colleges compete for students, and the means of attracting top students–hiring the best professors, maintaining beautiful campuses, etcetera– costs money. This model is consistent with the measured increases in average tuition. It is economically justifiable to pay high tuition for the best education. Students will choose the school where the difference between expected additional lifetime earnings with a degree, and net college tuition, is greatest. In theory, the higher quality education one receives, the higher their lifetime earnings will be. Schools with lower tuition do not have the revenue to hire top professors or to maintain modern learning technology. As a result, the education provided by these schools is inferior to that of high tuition schools. Graduates from low-tuition schools will not make as much money as those from high-tuition schools. So students choose schools that offer a high quality education – the expensive schools.

Considering this model, if tuition rises faster than expected additional earnings over time, more students will choose to attend schools with lower tuition. Consequently, expensive schools would work to lower their costs to attract students. However almost continuously to this day, expected additional lifetime earnings has risen faster than tuition (Looney 2012), so colleges are not motivated to lower tuition.

Technological innovation has the potential to substantially increase the benefit of college, lowering costs and improving quality of education. This will only become reality if the quality of education continues to determine expected additional lifetime earnings. An analysis of our societal values concerning money, education, and institutional association is necessary to determine whether this is true. If we value the quality of education over the method or place it was received, and better-educated individuals have a better opportunity to become wealthy, our future is bright: as the quality of education provided on computers increases, online schools can begin to overtake traditional universities and the public can receive a quality education at a lower cost.

LITERATURE REVIEW

Economists and educational analysts agree that the cause of the faster-than-inflation tuition rises is the commercialization of higher education (Bok 2003, Ferrall 2011, Hansmann 2012, Hoxby 1997, Kantrowitz 2002, Rhoades 1995, Busman 1999). Once a primarily public commodity, higher education has become increasingly privatized in recent decades.

The Morrill Acts of 1862 and 1890 were the foundation of state universities. They designated the federal government to grant land to states, which were allowed to develop or sell that land with the purpose of establishing colleges (Safransky 2011). Education was subsidized for the general population. People attended their local state universities at marginal cost. In the second half of the twentieth century land grant funds ran out and a wave of increased support for funding of Medicaid and K-12 schools occurred, diminishing funds for public universities (Lewin 2011). As public funding slowed, the affairs of universities were privatized (Lye 2011, Lewin 2011). Private educational institutions rely on tuition for funding: for every 1% decline in non-tuition funding, usually from government cuts, a 4.1% increase in tuition occurs (Kantrowitz 2002).

As private entities, higher educational institutions compete with each other as businesses. Though the majority of colleges and universities are labeled "not for profit," endowment building is a primary goal (Ferrall 2011, Bok 2003, Hansmann 2012). Attracting top students is the predominant competition educational institutions participate in to build their endowments. They want students who will make money after they graduate, reflect well on the institution, donate, and attract more third-party funding. To attract top students, institutions hire exceptional professors, maintain aesthetically pleasing campuses, build top notch athletic facilities, and offer educational programs that will result in high paying jobs. This criterion for attracting top students raises operating costs. High operating costs means high tuition. The schools that do not follow suit are neglected by applicants and fail to remain relevant. To avoid this, institutions spend money to make these changes, and raise tuition to fund them. This has a multiplying effect across all institutions as whenever one school increases spending, enhancing the quality of the school, other schools must do the same to maintain relative prestige. The result is the continuity of tuition increases in America.

Privatization of higher education changed the internal workings of institutions, resulting in rapid rises in operating costs. To adhere to the changing demands of students (the customers are always right), the administration takes power from the faculty in decision-making processes (Bok 2003, Rhoades 1995). Administration can institute necessary changes efficiently, without taking time to consider the array of opinions of the faculty. Administrative growth is responsible for a significant portion of the rises in operating costs and tuition.

Scholars concur that commercialization is the cause of high tuition. The controversy over high tuition concerns the implications of commercialization, and what the future holds. Educational conservatives argue that the changes are inherently negative, as education is no longer connected to the public interest. Market driven education has a lower capacity for initiating innovation because it is primarily vocational; broadly educational individuals with strong capabilities to innovate are no longer produced by our society (Busman 1999). Others argue that the high tuition augments inequality (Lye 2011), as low-income individuals are put off from attending college by the price tag. Without a college degree it is difficult to enter the middle class; high tuition solidifies our class structure. The question to be answered concerning high tuition is what, if any, action should be taken by the public to alter the current trend.

To combat the repercussions of rising tuition, some call for an increase in public funding (Lye 2011, Toutkoushian 2010). If education is highly subsidized at only a few schools within each students' home state, then interstate competition among institutions will diminish, and with it the unnecessary expenses institutions maintain to attract students. However, this solution is costly. States will have to sharply raise taxes hence stunting the economy. This sort of legislation is unpopular and difficult to pass.

Disagreement also arises over the inevitable change destined to reshape everything about higher education: technology and the internet. Online schooling is becoming prevalent. It is cheap, accessible, and time-flexible. Top schools such as Stanford and MIT offer their courses online for free. They are open to the public, but only matriculated students can receive credit for them. The idea is that face-to-face contact is necessary for learning, and students who complete online courses don't have as comprehensive of an understanding of subject matter as those whom attend physical classes. Tuition at for-profit online universities is a fraction of that at institutions with campuses, but for-profit schools only account for ten percent of the market share of higher education (Hansmann 2012); their degrees are not valued by students or employers because the quality of the education they provide is subpar.

Economic analysts believe that higher education is not a bubble. Data comparing average lifetime earnings of college graduates to non-college graduates suggests that at current tuition rates, it is well worth it to get a bachelors degree (Hoxby 1997, Kantrowitz 2002, Hansmann 2012). Even with no financial support, attending college will more than pay off in a lifetime. Neglecting the potential of online schooling to lower educational costs, the benefits of attending college outpace the rising costs. In this sense, rising tuition is not really a problem. Low-income students can still attend college relying completely on student loans, and pay them off once they start working.

Non-economist social scientists argue that low income individuals are still hurt with high tuition, as it deters them from attending college (Lye 2011). Low-income individuals are not willing to take out thousands of dollars in loans if there is a chance that they will not graduate, in which case they will be stuck under the burden of the loans without a college degree. They argue that only a return to predominantly publicly funded higher education will create equality. Completely publicly funded education does create the most equality. Yet the US is a mixed economy with capitalist and socialist components: the American ideology entails a balance between efficiency and equality. 100% publicly funded education is inefficient and would impede economic growth.

I am partial to the economist viewpoint. When presented with the visual data comparing average additional lifetime earnings with a college degree to the average net cost of college it becomes clear that high tuition is not necessarily a problem. Economically, it is definitely worth it to attend college. Student loans are a burden, but compared to the alternative it is impossible to say they are not worth it. Furthermore, even if average tuition doubles what it is now, it is still an economically sound investment it to attend college and pay for it completely with student loans. However, our society should continuously look for more efficient ways to operate. Online school has the potential to sever college costs while providing a quality education. Our society should not dismiss the potential of online schools because those that exist currently are not reputable. We should invest in new ways of teaching and learning online which can make education cheaper and more accessible.

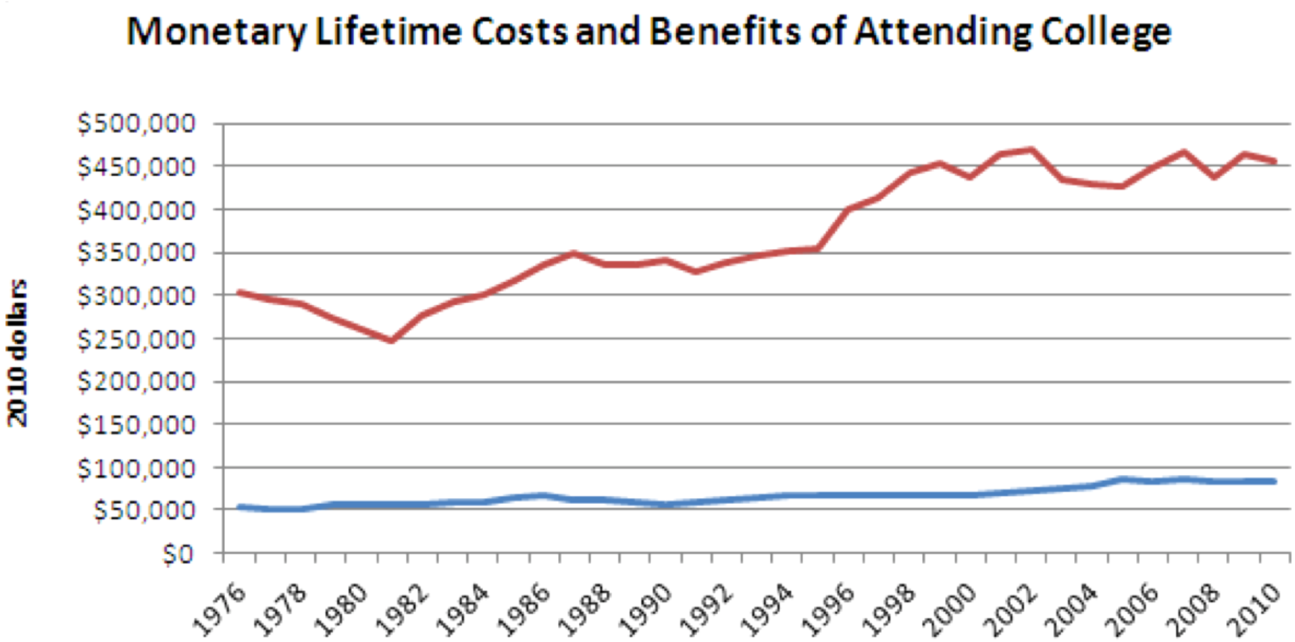
METHODS

To determine the effects of rises in tuition, I primarily searched economic and sociological articles on JSTOR. I aimed my searches at the effects of high tuition, as the causes were fairly standard across different literature. Most of the articles and papers I found used data from the National Center for Education Statistics, or data gathered by the authors themselves. The data was often presented in a visually appealing manner, so I could easily understand the relevant information it provided.

Since my sources already had data visually presented, I sought to combine different types of data to present their information in a different light. A graph showing the expected additional earnings with a college degree over time next to a graph representing the average cost of a college degree instantly changed my perception of the issue. I combined and analyzed data gathered by the authors cited, providing a unique approach to the topic.

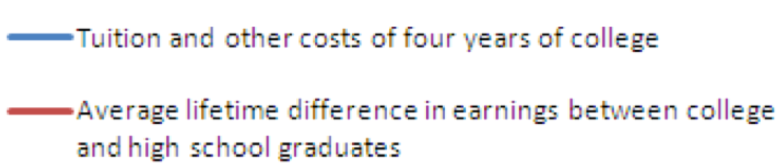
FINDINGS

Data concerning the effects of rises in tuition reveals that economically, it is hardly a problem. There would be cause for concern if like the housing market, the demand for higher education was a bubble. If this were the case, tuition would rise while expected additional lifetime earnings remained stagnant. The only way to predict expected additional earnings with a college degree is to observe the historical data, and analyze the trend.



The graph below shows the average difference in lifetime earnings between college and high school graduates, and the net opportunity cost of attending college. The net cost of attending college includes tuition, fees, and foregone earnings (the cost of not working,

or the amount of money an individual could expect to make in that time with only a high school diploma). If the decision of whether to attend college was viewed purely as an investment, this graph is all one needs to see. Considering the rapid rises in tuition,



“college is still one of the best investments an individual can make” (Looney 2012). We also can see also that since 1980, the red line has risen from $250,000 to $450,000, while the blue line has risen from around $50,000, to $80,000. This leaves one stricken that college tuition, against popular sentiment, has risen moderately over the last thirty years. If college tuition was a standard cost-benefit commodity, it would have risen at a similar rate to expected additional lifetime earnings. But people do not choose to attend college like they choose to buy a slice of pizza. Some people are not academically fluent enough to attend college; others do not consider tuition as a factor. For those between these two extremes, the economic decision to attend college is indubitable. We live in a society where education is the foundation of success, and is financially encouraged.

DISCUSSION

The data used represents averages over millions of people in the US. It tells us that macro-economically, tuition in higher education is not a problem, and tuition increases are low compared to the benefits of a college degree. As a country, we do not necessarily need to be worried about the rises in tuition. It does not deter college enrollment; the elasticity of higher education is around 1% (Hemelt 2008). Elasticity means percent change in enrollment divided by percent change in tuition. If tuition rises ten percent, then enrollment will only decrease by one-tenth of one percent, on average. This confirms that economically, students are rational actors. People know that when deciding whether to attend college, they must consider the difference in net tuition and net additional income throughout their life. The graph above shows that if tuition doubled, tripled, or even quadrupled today, it would still be worth it for most people to attend college. That is why when tuition rises 10% in a period of two years, the decrease in enrollment is negligible.

While the model holds for people from all economic brackets, the data does not represent the difficult decision of low income individuals. For those who do not have parental financial support, were not raised in an environment that encourages academic excellence, or received a subpar high school education, high tuition is especially burdensome. Consider the example of an individual who would be the first in their family to attend college. This person does not know what it will be like, and they acknowledge the possibility of dropping out. It is not worth the risk to attend a school that costs over $20,000 per year. Dropping out after two years would leave them with over $40,000 in loans, and no prospects for a higher paying job. In such situations, cheaper alternatives exist.

For-profit schools have made a breakthrough recently. Since 1980, when only a few such institutions existed, for-profit schools have captured ten percent of the market shard for higher education (Hansmann 2012). Furthermore, in the last decade, tuition at such schools decreased significantly, while tuition at every other type rose. For-profit schools have figured out how to cheaply provide comprehensive vocational education. They are predominantly internet based. The idea of online school challenges ideals of many. Almost everyone with a college degree in this generation learned through attending class and studying their textbooks. Living on or near the college campus was the norm. Four years of one’s life was dedicated to education. The idea of obtaining a college degree on a computer is difficult to accept. People argue that face-to-face contact with professors is a necessary prerequisite to developing the skills of a college-graduate. This is why top students still choose to attend traditional universities. Students and employers consider online education foreign. Yet the fact that online schooling can be provided at such a low price solidifies its presence in the future of higher education. Right now it serves as an intermediary between entering the workforce straight after high school and attending a traditional university. It is marketed towards those concerned about tuition. In the future, however, using technology and the internet as a means of education could increase the efficiency of our society.

High tuition is not a problem for everyone, but technology has the potential to diminish the strain it forces on low income individuals. Online classes can be provided to everyone with a computer and internet at low cost. All it takes is someone to video-record lectures of a course, and post them online. Many colleges currently do this, with all the lecture notes posted on a class website so class attendance is not mandatory. If it is possible to learn online to the same standard as a $6,000 classroom course, then we are wasting our money on tuition. Right now, the argument can be made that the traditional classroom setting is superior to the online setting, rendering online degrees less valuable. Yet it is inevitable that in the future, methods of learning and communicating online will be developed that approach the standard of the face-to-face contact of the classroom setting. This has the potential to tremendously benefit our society. Every dollar spent on tuition could be spent towards something else. Anybody with the adequate intellect, dedication, and time will be able to earn a quality education. High tuition will be a problem we have overcome.

People should not worry about college tuition any more than they have in the past. Scholarship is available, and the recent “Student Loan Forgiveness Act” provides support for those who are unable to pay back their loans. Nevertheless, a large-scale change is coming, threatening the fundamental existence of all colleges. Current schools will change their structure, and run campuses efficiently in order to compete with cheaper online schools. It is important for Americans to understand that this can be a positive change. Alma mater’s may cease to exist, but our educational system will be more efficient. Just as oil companies resent the introduction of hybrid and electric cars, traditional universities will produce rhetoric hostile to online education. The best thing to do is embrace the change. Our children may not have the experience of face-to-face interaction with professors, but is that really worth a quarter million dollars of your own money?

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