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ABSTRACT

The rising cost of attending college is addressed in a staff summary of hearings held in 1987 by the House of Representatives. The report is endorsed by Augustus F. Hawkins, Chairman of the Committee on Education and Labor. Witnesses included higher education researchers, college presidents, and students. The difference between cost and price in higher education is addressed, along with reasons that college costs are rising faster than inflation. Data are provided on the national average cost of college: mean tuition/fees and total budgets for resident students living in institutional housing for 1964-1988 for public and private two-year and four-year institutions and for proprietary schools. Information is also provided on the contribution of state and local governments to public and private institutions. Changes in the Higher Education Price Index between 1960 and 1986 are documented. A majority of witnesses testified that the greatest factor affecting tuition increases reflected changes in student financial assistance policies at the federal, state, and institutional level. Many of the witnesses expressed concern for the impact higher tuition rates will have on students from minority or disadvantaged backgrounds. The testimony indicated that decisions by colleges to increase tuition appear to be in response to rising costs of operating the college. (SW)

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[COMMITTEE PRINT]

STAFF REPORT ON RISING COLLEGE COSTS

PREPARED FOR THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR

DECEMBER 1987

THIS REPORT HAS NOT BEEN OFFICIALLY ADOPTED BY THE COMMITTEE ON EDUCATION AND LABOR OR THE SUBCOMMITTEE ON POSTSECONDARY EDUCATION AND MAY NOT THEREFORE NECESSARILY REFLECT THE VIEWS OF ITS MEMBERS

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AUGUSTUS F. HAWKINS, *Chairman*

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(II)

I am very pleased to endorse this report on a very important topic to millions of Americans. The report is based on a hearing held by our Subcommittee on Postsecondary Education, chaired by my colleague, Congressman Pat Williams of Montana, and very ably supported by E. Thomas Coleman of Missouri, the Ranking Minority Member. I commend the staff for their fine work in reducing the complexities of the issue into a very comprehensible report.

Augustus F. Hawkins
Chairman, Committee on
Education and Labor"

(III)

College Cost Hearing Report

America, like other nations around the around the globe, depends on a well-educated citizenry to ensure her continued social, political, and economic viability. Therefore, decisions that individuals, families, and governments make about education have important implications for our national welfare. Further, it is generally accepted that "a strong connection exists between economic status and the education and abilities gained... in formal and vocational schooling"(Bureau of the Census, 1987).

Recently, the U.S. Census Bureau published data from its 1984 "Survey of Income and Program Participation." These data indicate that the monthly income of individuals with college degrees($1,910) is nearly twice the monthly income of high school graduates($1,045). Thus, obtaining a college degree provides an important economic benefit, not only to the individual but also to government. Therefore, the cost of attaining such a college degree is a matter of growing concern to families, students, and government.

"Americans have a visceral understanding of the importance of education. They must not be told that their children can no longer take part in that dream," said Pat Williams, Chairman of the House Postsecondary Education Subcommittee. "We cannot let the dollar sign become an unbreachable barrier to America's best and brightest."

Thus, to explain more comprehensively the extent of college cost increases, the variety of factors that might

(1)

reasonably explain these increases, and the policy implications of this phenomenon, the House Subcommittee on Postsecondary Education held a hearing on September 15, 1987, to consider, in the words of Chairman Williams, "the costs of attending the world's premier education system, America's colleges and universities."

Representative Jim Jeffords cautioned the Subcommittee that "there may come a point, and perhaps we have reached it, when the public will become disenchanted with such cost spirals. We may also come to a point, and again perhaps we have reached it, when access to a postsecondary education which best suits a particular student may not be available for financial reasons".

In his opening statement, Ranking Subcommittee Member Tom Coleman stressed that the "ability to obtain the goal of a higher education should not be limited to a person's social or economic standing."

Secretary of Education William Bennett has also helped to focus the nation's attention on rising college costs by suggesting that the availability of federal financial assistance was important in explaining rising tuition and fees. "There they go again- and again," said Bennett in response to this year's College Board announcement of annual college cost increases.

These charges by Mr. Bennett left the impression among the general public that colleges were taking unfair advantage of the taxpaying public. "It seems obvious that a $15 billion dollar subsidy to the customers of any $100 billion industry will allow it to raise prices higher than it otherwise would." said Secretary Bennett. Many of Mr. Bennett's ideas were challenged during the hearing.

Among the witnesses testifying at this five hour hearing were higher education researchers, college presidents, and students. A complete list of all testimony received is included in the Appendices.

The facts on College Costs

Overall, since 1970, the price of a college education has increased at a rate that is about one percent faster than the rate at which the standard measure of inflation, the Consumer Price Index(CPI) has been increasing. Between 1970 and 1980, tuition increases were, on average, below that of the CPI. However, so far, during the 1980s, tuitions are rising at a rate twice that of inflation. It is the presence of such rapid tuition increases in the 1980s that has raised concern over the future affordability of a college education. Further, such noticeable increases might have a chilling effect on decisions about pursuing a college education all together.

Significant increases in tuition have not been limited to any particular type of institution. During the 1970s, tuitions at private colleges increased about one percent faster than at public institutions. However, so far, in the 1980s the rate of increase has been about the same in both public and private institutions, approximately 10 percent annually. Table 1 summarizes the annual percentage change in tuition and fees by year and type of institution.

The media has given a great deal of attention to the above average increases at the higher cost, elite

TABLE 1. Total National Average Cost of College: Mean Tuition/Fees and Total Budgets for Resident Students Living in Institutional Housing (1964-65 to 1987-88) and Annual Percentage Change (1976-1987)

Academic year	Public 2-year	Private 2-year	Public 4-year	Private 4-year	Proprietary (a/)
	Type and control of institution				
1964-65					
Tuition/fees	$99	$702	$298	$1,297	na
TOTAL COST b/	638	1,455	1,051	2,202	na
1965-66					
Tuition/fees	109	768	327	1,369	na
TOTAL COST c/	670	1,557	1,105	2,316	na
1966-67					
Tuition/fees	121	845	360	1,456	na
TOTAL COST c/	710	1,233	1,171	2,456	na
1967-68					
Tuition/fees	144	892	366	1,534	na
TOTAL COST c/	789	1,762	1,199	2,545	na
1968-69					
Tuition/fees	170	956	377	1,638	na
TOTAL COST c/	883	1,876	1,245	2,673	na
1969-70					
Tuition/fees	178	1,034	427	1,809	na
TOTAL COST c/	951	1,993	1,362	2,920	na
1970-71					
Tuition/fees	187	1.109	478	1,980	na
TOTAL COST c/	998	2,103	1,477	3,163	na
1971-72					
Tuition/fees	$192	$1,172	$526	$2,133	na
TOTAL COST c/	1,073	2,186	1,579	3,375	na

TABLE 1. Total National Average Cost of College: Mean Tuition/Fees and Total Budgets for Resident Students Living in Institutional Housing (1964-65 to 1987-88) and Annual Percentage Change (1976-1987)--Continued

Academic year	Public 2-year	Private 2-year	Public 4-year	Private 4-year	Proprietary (a/)
	Type and control of institution				
1972-73					
Tuition/Fees	233	1,221	566	2,226	na
TOTAL COST c/	1,197	2,273	1,668	3,512	na
1973-74					
Tuition/fees	274	1,303	581	2,375	na
TOTAL COST c/	1,274	2,410	1,707	3,717	na
1974-75					
Tuition/fees	277	1,367	599	2,614	na
TOTAL COST c/	1,339	2,591	1,760	4,076	na
Methodology Changes					
1975-76					
Tuition/fees	301	1,652	578	2,240	1,627
TOTAL COST	2,411	3,690	2,679	4,391	3,822
1976-77					
Tuition/fees	387	1,740	621	2,329	1,808
TOTAL COST	2,454	3,907	2,790	4,568	4,238
Annual percent change in total cost, 1975-76 to 1976-77	+1.8%	+5.9%	+4.1%	+4.0%	+10.9%
1977-78					
Tuition/fees	389	1,812	621	2,476	1,895
TOTAL COST	2,550	4,015	2,906	4,811	4,374
Annual percent change in total cost, 1976-77 to 1977-78	+3.9%	+2.8%	+4.2%	+5.3%	+3.2%

See footnotes at end of table.

TABLE 1. Total National Average Cost of College: Mean Tuition/Fees and Total Budgets for Resident Students Living in Institutional Housing (1964-65 to 1987-88) and Annual Percentage Change (1976-1987)--Continued

Academic year	Public 2-year	Private 2-year	Public 4-year	Private 4-year	Proprietary (a/)
	Type and control of institution				
1978-79					
Tuition/fees	408	1,930	651	2,547	2,038
TOTAL COST	2,666	4,264	3,054	5,110	4,580
Annual percent change in total cost, 1977-78 to 1978-79	+4.5%	+6.2%	+5.1%	+6.2%	+4.7%
1979-80					
Tuition/fees	389	2,043	680	2,923	2,321
TOTAL COST	2,760	4,552	3,258	5,526	4,946
Annual percent change in total cost, 1978-79 to 1979-80	+3.5%	+6.7%	+6.7%	+8.1%	+8.0%
1980-81					
Tuition/fees	464	2,079	706	3,279	2,342
TOTAL COST	3,123	4,592	3,409	6,082	(d/)
Annual percent change in total cost, 1979-80 to 1980-81	+13.1%	+8.8%	+4.6%	+10.1%	---
1981-82					
Tuition/fees	469	2,632	819	3,709	2,729
TOTAL COST	3,230	5,604	3,873	6,885	6,239
Annual percent change in total cost, 1980-81 to 1981-82	+3.4%	+22%	+13.6%	+13.2%	---

See footnotes at end of table.

TABLE 1. Total National Average Cost of College: Mean Tuition/Fees and Total Budgets for Resident Students Living in Institutional Housing (1964-65 to 1987-88) and Annual Percentage Change (1976-1987)—Continued

Academic year	Public 2-year	Private 2-year	Public 4-year	Private 4-year	Proprietary (a/)
1982-83					
Tuition/fees	595	2,486	979	4,021	---
TOTAL COST	3,562	5,751	4,388	7,475	---
Annual percent change in total cost, 1981-82 to 1982-83	+10.3%	+2.6%	+13.3%	+8.6%	---
1983-84					
Tuition/fees	$621	$3,094	$1,105	$4,627	---
TOTAL COST	3,868	6,609	6,609	8,440	---
Annual percent change in total cost, 1982-83 to 1983-84	+8.6%	+15%	+7.6%	+12.9%	---
1984-85					
Tuition/fees	598	3,404	1,126	5,016	na
TOTAL COST	3,998	7,064	4,881	9,022	na
Annual percent change in total cost, 1983-84 to 1984-85	+3.4%	+6.9%	+3.4%	+6.9%	---
1985-86					
Tuition/fees	659	3,719	1,242	5,418	na
TOTAL COST	(d/)	7,695	5,314	9,659	na
Annual percent change in total cost, 1984-85 to 1985-86	---	+4.7%	+5.5%	+5.6%	---

See footnotes at end of table.

TABLE 1. Total National Average Cost of College: Mean Tuition/Fees and Total Budgets for Resident Students Living in Institutional Housing (1964-65 to 1987-88) and Annual Percentage Change (1976-1987)--Continued

	Type and control of institution				
Academic year	Public 2-year	Private 2-year	Public 4-year	Private 4-year	Proprietary /a/
1986-87					
Tuition/fees	$663	$3,910	$1,337	$5,793	na
TOTAL COST	(c/)	8,056	5,604	10,199	na
Annual percent change in total cost, 1985-86 to 1986-87	---	4.7	5.5	5.6	---
Methodology Changes					
1987-88					
Tuition/fees	$679 e/	$4,000 e/	$1,33 e/	$5,945 e/	(e/)
TOTAL COST	(e/)	(e/)	(e/)	(e/)	(e/)
Annual percent change in total cost, 1986-87 to 1987-88	na	na	na	na	na

See footnotes at end of table.

FOOTNOTES

a/ Tuition/fees and total cost figures were not available in most years for proprietary institutions. The College Scholarship Service reported data for a few years but determined that the sample was too small to show a meaningful result. Also, the category of proprietary institutions was so diverse that the costs within the category were difficult to determine. Therefore, College Scholarship Service decided to discontinue collecting college cost data on proprietary institutions.

b/ Total cost as defined by College Sch[illegible] Service includes tuition/fees, room and board, books and supp[illegible]nsportation, and miscellaneous personal expenses. All total cost fi[illegible] from 1975-76 to 1987-88 are comparable. However, for the academic years 1964-65 through 1974-75, total cost includes only tuition/fees and room and board as reported by the Center for Education Statistics.

c/ Center for Education Statistics data have been used for academic years 1964-65 through 1974-75. These figures are weighted by the number of full-time equivalent students.

d/ According to College Scholarship Service the sample was too small to show a meaningful result.

e/ College Scholarship Service has changed its methodology for determining average tuition/fees and college cost. Beginning in 1987-88 college cost figures are weighted by an institution's full-time undergraduate enrollment. However, the tuition/fees figures for 1987-88 in this table remain unweighted so as to show comparability with the previous year's figures. (Consult College Board's press release concerning the methodology change.)

na = not available.

Source: For the years 1964-1965 through 1974-1975 the Digest of Education Statistics 1987 was used (Office of Educational Research and Improvement, Center for Education Statistics).

For 1975-76 to 1987-88 the College Scholarship Service's College Cost book was used.

institutions, but this group makes up only a small portion of the total populatior f institutions. According to the National Association of Independent lleges and Universities, of the 1069 four-year ivate institutions, only about 73 charge more than $10,00 a year for tuition. Average tuition charged at private in itutions is $6,150, and two-fifths of all private institutions charge less than average.

Taking a slightly longer term look at the trends in college costs, tuition increases at public institutions have averaged about seven percent over the past two decades. For the same time period at private institutions, tuitions increased an average of eight percent a year. The increase in the CPI averaged six percent a year for those 20 years.

Most comparisons of tuition increases are averaged over a period of years. When considered on a year by year basis, tuitions have not increased faster than inflation for every single year. In five of the past twenty years, tuitions have increased at a slower rate than annual inflation. The pattern seems to be one where increases in tuition lag behind inflation by about two years. An explanation of this pattern is offered in the testimony of Art Hauptman, a higher education consultant. According to Hauptman, institutions purchase goods and services through contracts that may not contain cost of living adjustments. Therefore, tuition may be less sensitive to annual inflation rates and more tied to longer term trends. Table 2 contains a yearly breakdown of tuition and fees to illustrate this point.

TABLE 2. Annual Percentage Change in Mean Tuition and Fees 1964-1987

	Type and control of institution			
	Public 2-year	Private 2-year	Public 4-year	Private 4-year
1964-65	---	---	---	---
1965-66	10.1	9.4	9.7	5.5
1966-67	11.0	10.0	10.1	6.4
1967-68	19.0	5.6	2.0	5.4
68-69	18.0	7.2	3.0	6.8
1969-70	4.7	8.2	13.3	10.4
1970-71	5.1	7.2	12.0	9.5
1971-72	2.7	5.7	10.0	7.7
1972-73	21.3	4.2	7.6	4.4
1973-74	17.6	6.7	2.6	6.7
1974-75	1.1	5.0	3.1	10.1
	Methodology Changes			
1975-76	8.7	20.8	-3.5	-14.3
1976-77	28.6	5.3	7.4	4.0
1977-78	.5	4.1	0	6.3
1978-79	4.9	6.6	4.8	6.9
1979-80	-4.6	5.8	4.4	10.4
1980-81	19.3	1.8	3.8	12.2
1981-82	1.1	26.6	1.6	13.1
1982-83	26.9	-5.6	19.5	8.4
1983-84	4.4	24.4	12.9	15.1
1984-85	-3.7	10.0	2.0	8.4
1985-86	10.2	9.2	10.3	8.0
1986-87	.6	5.1	7.6	6.9
	Methodology Changes (See note)			
1987-88	2.4	2.3	-.4	2.6

NOTE: Percentages are derived from annual percentage changes in tuition and fees as they appear in the Digest of Education Statistics from 1964-65 to 1974-75 and in the College Cost Book from 1975-76 to 1987-88. The figures from 1964 to 1974 are weighted per full-time equivalent student. The figures from 1975-76 to 1987-88 are unweighted. For purposes of comparability in this table the 1987-88 figures have been left unweighted although the College Scholarship Service has changed its methodology and now weights tuition/fees according to the institution's full-time undergraduate enrollment.

Source: Digest of Education Statistics. Center for Education Statistics. 1964-65 to 1974-75; and College Cost Book, College Scholarship Service 1975-76 to 1987-88.

Price and Cost

Many witnesses cautioned the Subcommittee to proceed with the discussion of college costs based on a clear understanding of the differences between price and cost in higher education. Price is what the consumer pays. Tuition, student fees, and other charges typically are all included in the price charged to students who attend an institution of higher education.

Cost, on the other hand, refers to what institutions must pay to provide students with a college education. Included in an institution's costs are such items as salaries, benefits packages, physical plant maintenance, and plant costs that allow the institution to provide the service of higher education to the consumer.

Thus, price and cost are not the same thing, and typically the price of a college education does not cover the full costs that an institution must bear to provide its educational service. Further, these price-cost differences vary by sector. In the public sector, tuitions cover about one-quarter of the costs, depending on the type of institution and the field of study. Usually public institutions make up a portion of their price-cost differences through direct state appropriations or state grants based on enrollment to the institutions. In the private sector, tuition covers less than two-thirds of the costs, although that percentage varies among different types of institutions. For private institutions, the difference between price and cost is made up through private fundraising, endowment earnings, and other private resources. Private schools may also recoup some of their price-cost differences through state payments to the institution, but typically such payments are insufficient to close the gap. Table 3 summarizes the contribution of state and local governments to public and private instutitions.

TABLE 3. State and Local Government Funds Contributing to Current-Fund Revenue of Institutions of Higher Education by Control of Institution for Selected Years 1975--1985 and Percentage Change (in thousands of dollars)

	Private		Public	
	State government support	Local government support	State government support	Local government support
1975-76	$297,548	$117,448	$11,963,337	$1,499,527
1977-78	315,230	108,648	14,430,936	1,635,582
1979-80	404,457	151,078	17,430,936	1,436,474
1980-81	430,253	167,801	19,675,968	1,622,938
Annual percent change 1979-80 to 1980-81	6.3	11	9.5	13
1981-82	451,728	180,661	21,397,064	1,757,007
Annual percent change 1980-81 to 1981-82	5.0	7.7	8.7	8.3
1982-83	502,951	185,836	22,562,685	1,845,517
Annual percent change 1981-82 to 1982-83	11.3	2.9	5.4	5.0
1983-84	549,673	208,091	24,157,316	1,984,184
Annual percent change 1982-83 to 1983-84	9.3	11.9	7.1	7.5
1984-85	617,593	208,451	26,965,417	2,178,761
Annual percent change 1983-84 to 1984-85	12.3	.2	11.6	9.8

Source: Digest of Education Statistics, 1985-86, Center for Education Statistics.

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Why are College Costs Rising Faster than Inflation?

One common explanation given for rising tuitions is the increase in the price of goods and services that are purchased by colleges and universities. Most studies compare tuition increases to the Consumer Price Index (CPI). The CPI measures 328 items in the general categories of food, housing, apparel, transportation, and other services. Critics, however, point out that these items are not comparable to purchases an institution of higher education must make. Instead, they argue in favor of the Higher Education Price Index (HEPI), developed by the National Institute of Education (1983). The HEPI measures change in the price of goods and services that colleges and universities typically must purchase, such as faculty and staff salaries, communication costs, transportation, insurance, computers, supplies, materials, utilities, books and periodicals. Table 4 contains information about changes in the HEPI, and several of its parts between 1960 and 1986.

In addition to price inflaters, several specific factors were identified as factors that could explain tuition increases. Many of these factors are already reflected in the HEPI index. Faculty salaries were most commonly mentioned. As a result of reduced funding and an extended period of high inflation during the 1970s, faculty salaries had dropped by 21 percent in real dollars by 1984. The above inflation increase in faculty salaries since 1983 is given as evidence that colleges are attempting to restore previous

TABLE 4. Higher Education Price Index

	Personnel compensation a/	Contracted services, supplies and equipment a/	Higher Education Price Index (HEPI)	Annual percentage change HEPI
1960	---	---	77.7	---
1965	---	---	95	---
1970	---	---	128.7	---
1975	---	---	166.2	---
1976	176.4	180.2	177.2	6.6
1977	187.1	194.8	188.7	6.5
1978	199.2	209.3	201.3	6.7
1979	214.6	225.9	216.9	7.7
1980	232.4	260.9	238.2	9.9
1981	254.7	299.3	263.9	10.7
1982	279.4	332.4	290.4	10.0
1983	298.1	349.7	308.8	6.3
1984	316.4	359.7	325.4	5.4
1985	341.2	370.9	347.3	6.7
1986	360.4	370.3	362.5	4.4

1967 = 100

a/ This functions as a subindex and part of the Higher Education Price Index.

Source: Research Associates of Washington, Higher Education Prices and Price Indexes: 1986 Update.

cuts in faculty buying power as well as attempting to raise faculty salaries to a level more competitive with other professional groups. This attempt to increase salaries appears to be part of an overall effort by many institutions to keep quality faculty on campus and thus retain or improve the quality of instruction and research at these institutions.

For some schools, the cost of maintaining library holdings also appears to be a factor affecting tuition increases. According to University of Missouri President, Peter Magrath, schools must maintain their libraries, and yet it is difficult for an institution to maintain these library holdings when the acquisition costs of such materials are rising at a rate five times that of inflation. According to Library Journal, between 1967 and 1979, the cost of U.S. periodicals increased by 250 percent, while CPI increased by only 62 percent.

According to the 1986-87 Student Charges Survey, (AASCU, NASULGC, 1987), higher insurance rates have also served to drive up costs at institutions. A statement from the American Association of State Colleges and Universities indicates that cost increases for insurance rates at public colleges and universities have ranged from 90 to 100 percent over the past two years. Institutions need to carry insurance policies to protect the institution's general liability in the case of accident or injury on campus. Liability insurance must also be carried to protect the Directors and Officers of the institution who can be held liable for any action taken by the institution.

Another possible factor is the cost associated with growth of non-educational related services on campuses. Some institutions faced with societal changes, changing demographics, and increased competition, appear to be offering upgraded or additional services that directly add to the cost of an education. Such services include the provision of day care services for students and staff, extended office hours to facilitate attendance by non-traditional students, additional counseling and placement services, campus security services, and drug and alcohol abuse prevention.

Director of the State Council of Higher Education for Virginia, Gordon Davies, proposed that these non-education related services may not be necessary. According to Davies, it is competition among colleges that has led them to offer an increasing array of services and entertainments, and these services and entertainments are not related to the education that the student will receive. Such costs as health fees, athletic fees and others are directly added to the student's bill. In the state of Virginia, it was determined that the price of tuition between 1975 and 1985 had risen about the rate of inflation, while the cost of student fees had risen by as much as 1,000 percent.

David Halpern, (1987), an architect specializing in designing and renovating college and university facilities, has collected survey data which indicates that institutions have delayed major rehabilitation and new construction on campuses because of a lack of funding. According to Halpern, this work cannot be delayed much longer. One quarter of the institutions surveyed said that the need for rehabilitation and new construction is extremely urgent. Another one third described it as very urgent, and all of the respondents said that they will undertake new construction and rehabilitation over the next five years. In terms of the relationship between the these plans and tuition rates, Halpern's study shows that the number one resource for funding rehabilitation is fees and general revenues. New construction is funded by capital appropriations.

Halpern's data also pointed to the important role campus appearance plays in recruiting students. According to his survey, the overall appearance of the campus is number four on the list of factors for recruiting and retaining students. One could conclude that as institutions become more competitive for students, funds directed towards appearance could increase and could become another unrelated cost of attending college.

Dr. Robert Iosue, President of York College (PA) testified that the single biggest reason for rapidly increasing tuitions was an over-paid and underproductive faculty. Iosue also argued that institutions employ too many administrators and that big-time sports at small-time institutions have driven up tuition at both public and private institutions.

Another college president, William Bowen, offers a different view. He says that responsibiliy for certain costs of higher education has moved from the the public sector to the private sector. Dr. Bowen, president of Princeton University, cited the example of increasing pressures on Princeton to finance a greater share of its scientific equipment and laboratories. Bowen traces this phenomenon to the steady decline in federal support of college and university research and development (R&D) plant expenditures and a rapid rise in the cost of state-of-the-art research equipment. Bowen noted that the federal share of total college and university R&D expenditures has dropped from one-third to one-eigth between 1966 and 1985. Over the same time period, the cost of state-of-the art research equipment has increased at a rate of between 12 and 16 percent per year.

Colleges and universities provide an important service to the nation in performing both basic and applied research.

These institutions have the research equipment and personnel to perform especially the basic research that the private sector can not afford to support. The Federal government, business, and industry have come to rely on institutions of higher education as a major supplier of research and development for many fields critical to our nation's technological development. Thus, reduced support of R&D activities may not reflect an adequate partnership between government, the private sector, and researach universities.

Both consultant Art Hauptman and the National Governors Association attributed some of the rise in tuition to the slowing of enrollment growth. During the 1960s, rapidly rising enrollments allowed institutions to spread the cost of both overhead and improvements over a growing number of students. However, as the rate of growth has slowed, institutions are attempting to spread higher fixed costs across fewer students. Table 5 illustrates this change in enrollment growth rate.

It was also noted by several witnesses that, for the public sector of higher education, the cost of attendance at a state institution is a decision that typically is made, not by the school itself, but is determined by the institution's Governing Board, the State's Higher Education Commission, or the State Legislature. According to the American Association of State Colleges and Universities, many state institutions' tuition revenues are deposited directly in the state's general fund and then redistributed to all public institutions in the state based on their size, enrollments, mission, and other criteria. The rate of inflation is often not considered in making these reallocation decisions. Instead, the condition of the

TABLE 5. Total Enrollment in Institutions of Higher Education
1960 to 1986

	Total enrollment a/	Annual % change	Public	%	Private	%
			Control of institution b/			
1960	3,582,726		2,115,893	59	1,466,833	41
1961	3,860,643	7.8	2,328,912	60	1,531,731	40
1962	4,174,936	8.1	2,573,720	62	1,601,216	38
1963	4,765,867	14.1	3,065,848	64	1,700,019	36
1964	5,280,020	10.7	3,467,708	66	1,812,312	34
1965	5,920,864	12.1	3,969,596	67	1,951,268	33
1966	6,389,872	7.9	4,348,917	68	2,040,955	32
1967	6,911,748	8.2	4,816,028	70	2,095,720	30
1968	7,513,091	8.7	5,430,652	72	2,082,439	28
1969	8,004,660	6.5	5,896,868	74	2,107,792	26
1970	8,580,887	7.2	6,428,134	75	2,152,753	25
1971	8,948,644	4.3	6,804,309	76	2,144,335	24
1972	9,214,860	3.0	7,070,635	77	2,144,225	23
1973	9,602,123	4.2	7,419,516	78	2,182,607	22
1974	10,223,729	6.5	7,988,500	78	2,235,229	22
1975	11,184,859	9.4	8,834,508	78	2,216,598	22
1976	11,012,137	-1.5	8,653,477	79	2,358,660	21
1977	11,285,787	2.5	8,846,993	78	2,438,794	21
1978	11,260,092	-.2	8,785,893	78	2,474,199	22
1979	11,569,899	2.8	9,036,822	78	2,533,077	22
1980	12,096,895	4.6	9,457,394	78	2,639,501	22
1981	12,371,672	2.3	9,647,032	78	2,724,640	22
1982	12,425,780	4.4	9,696,087	78	2,729,693	22
1983	12,464,661	3.1	9,682,734	78	2,781,927	22
1984	12,241,940	-1.8	9,477,370	77	2,764,570	23
1985	12,247,055	.4	9,479,273	77	2,767,782	23
1986 est.	12,120,000	1.0	9,584,000	79	2,536,000	21

a/ Total enrollment includes both graduate and undergraduate students.

b/ The percentages under control of institution have been rounded to the nearest 1 percentage point.

Source: Center for Education Statistics, Digest of Education Statistics, 1987 and Projections of Education Statistics to 1990-91.

state's economy is the driving factor.

The Department of Education presented the findings of its study, "Estimating the Cost of a Bachelor's Degreee: An Institutional Analysis". According to Dr. Chester Finn, Assistant Secretary for Research and Improvement at the Department of Education, the study was intended to develop a simple index to show the level of resources used by each type of institution to produce a bachelor's degree graduate. The report concluded that the cost of a bachelor's degree at a private institution averages $28,400 in 1983, compared to $18,500 at public institutions.

Subcommittee Chairman Williams questioned the value of the study. Drawing upon some additional conclusions of this study, Chairman Williams said: " What I find is that your study shows that no-frills education is cheaper, that schools without libraries, buildings, or personnel are cheaper, that large classes are more cost effective, and that large schools can provide a cheaper education than very small schools, and that undistinguished schools cost less. I come to the conclusion that excellence in education costs money. I am not surprised by that."

Student Financial Assistance and Rising College

Finally, the majority of witnesses testified that the greatest factor affecting tuition increases reflected changes in student financial assistance policies at the federal, state, and institutional level.

As mentioned earlier, Secretary of Education William Bennett has argued that federal student aid allows colleges to raise their tuition because federal aid constitutes a major subsidy, insulating higher education from supply and demand effects. Furthermore, the Secretary has argued that there is a causal relationship between increases in total federal student aid and the price institutions charge students to attend. All of the witnesses who addressed this issue disagreed with the Secretary's views.

Dr. Bowen, an economist by training, addressed the Secretary's statements by considering them in the context of basic price theory. Under what Bowen terms the "Bennett model", education is the industry. Price of the product is tuition. If firms in the industry (institutions of higher education) were "greedy" profit maximizers, they would seek to raise their prices (tuition) to the point where there would be no unsatisfied customers (students) willing to pay the price of attending the institution. Profit maximizers have little interest in who buys their product as long as the consumer can pay the price. While these assumptions may apply to institutions who operate on a for-profit basis, Bowen argued that they did not hold true in the non-profit sectors of higher education.

Princeton and other selective institutions, Bowen testified, attempt to keep costs to the student as low as possible, while also providing a high quality education. There is no consideration given to finding the price that would clear the market. There are always disappointed students who are willing to pay the full price, but are not accepted to attend. Finally, at Princeton, admissions are "need blind". That is, the industry agrees to provide the service even if the consumer cannot pay the price. This requires the institution to then commit a portion of its own resources to supporting the accepted students who cannot afford full tuition.

According to Bowen, at less selective institutions there is little excess demand and thus these institutions are limited in how high they can raise their tuitions. Further, these institution tend to serve a less-affluent population, one that is less able to cope with higher tuition unless there is sufficient financial aid, either federal or institutional, to help meet the higher costs. In Bowen's words, "any reduction in federal financial aid going directly to students at these institutions is translated directly into a need for larger student aid expenditures by the institutions themselves."

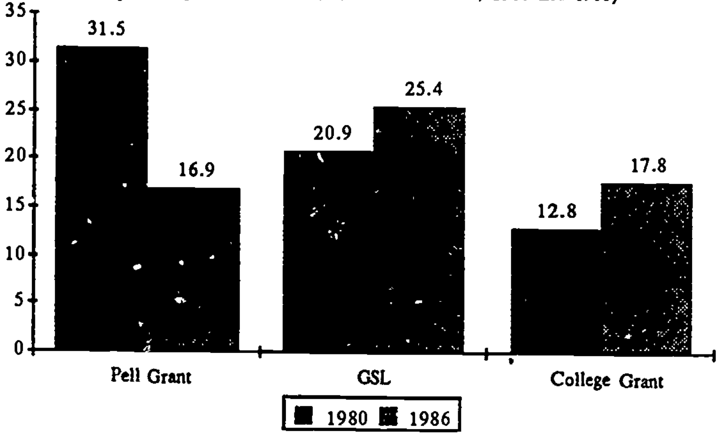
Hauptman also disagreed with the connection between federal student aid and tuition by describing how student aid programs work. Using the Pell program as an example, Hauptman pointed out that Pell awards are determined by subtracting a student's family contribution from the program maximum award of $2,100. Thus, charging students more for tuition will not affect the size of their Pell awards. Instead, the students would turn to the institution for additional aid to make up the difference between their institution's tuition and their own available resources.

That colleges were providing their students with significant increases in institutionally-based student aid was documented by a number of witnesses. Dr Kenneth Green, of UCLA's Higher Education Research Institute, testified that the "real news about college costs and financial aid is that institutions are funding a growing share of student financial aid."

Drawing on survey data from UCLA's Cooperative Institutional Research Program, Green presented the dramatic changes in student access to, and participation in, financial aid programs since 1980. As Figure I shows, freshman participation in the Pell Grant program has declined by nearly half since 1980. In 1986, 16.9 percent of first time entering college freshmen received Pell Grants. This is a decrease from 19.9 percent in 1985 and 31.5 percent in 1980.

Fig. 1: Freshman Participation in Student Aid Programs

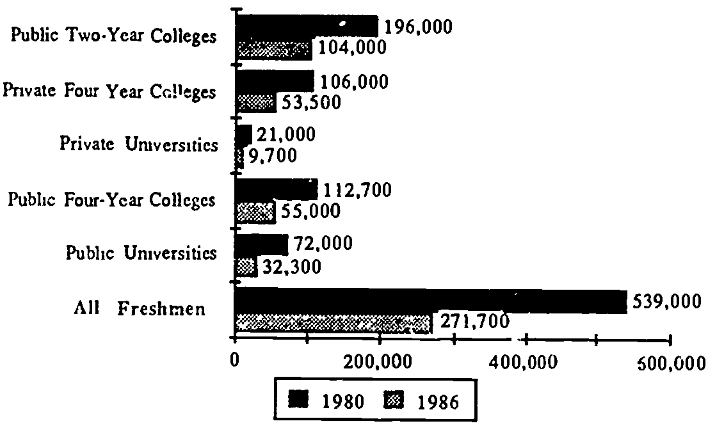
(percentages for first-time, full-time freshmen, 1980 and 1986)



source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

Fig. 2: Estimated Number of Freshman Participants in in the Pell Grant Program, Fall 1980 and 1986

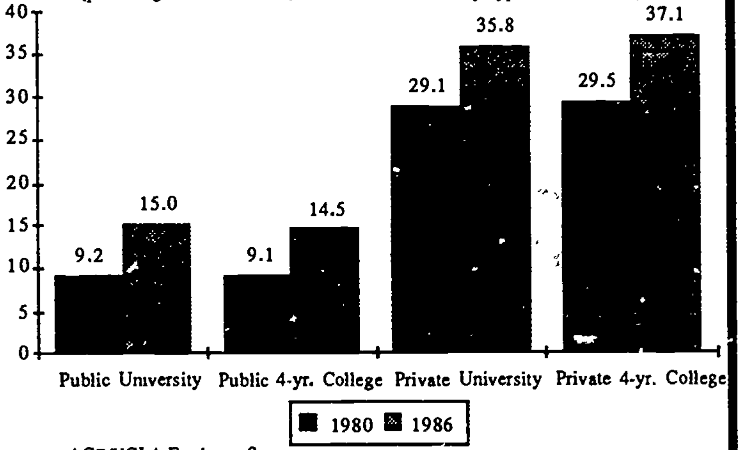
(estimated numbers of first-time, full-time freshmen receiving Pell Grants)



source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

Fig. 3: Freshman Participation in Campus-Funded Grant and Scholarship Programs, 1980 and 1986

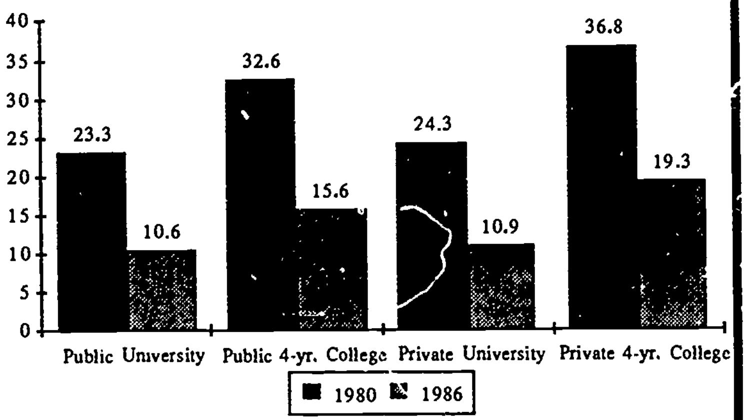
(percentages for first-time, full-time freshmen, by type of institution)



source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

Fig. 4: Freshman Participation in the Pell Grant Program, 1980 and 1986

(percentages for first-time, full-time freshmen, by institutional type)



source: ACE/UCLA Freshman Survey
Higher Education Research Inst., UCLA

The declining proportion of students receiving Pell Grants translates into a significant number of students with fewer federal financial aid dollars to bring to the campus. Between Fall of 1985 and 1986, 267,000 first-time freshmen fell out of the Pell Grant program (see Figure 2).

As a direct result of changes in available federal aid, Green testified that a greater proportion of freshmen (40 percent) are receiving institutionally funded scholarships or grants (see Figure 3). Green and several other witnesses conclude that institutions are using operating funds that previously went to support libraries, faculty salaries, and physical plant repairs to replace the federal financial aid that is no longer available to their students.

Julianne Still Thrift, a Senior Vice-President at the National Association of Independent Colleges and Universities, testified that between 1981-82 and 1985-86 the amount of institutional aid dollars provided by private institutions rose from $904 million to almost $3 billion. Thrift attributed at least half of the increase to the need for these private institutions to replace lost federal dollars.

Many of the witnesses agreed that a primary means of financing this significant increase in institutional student aid was a higher tuition rate for all students. The additional revenues raised by a higher, overall tuition rate are then returned to the needier students in the form of institutional aid. In the end, wealthier students not only pay for their own education, but also for a portion of their more needy peers as well. The witnesses referred to this transfer of dollars from the wealthier students to needier students as the "Robin Hood" effect.

Public Policy Implications

Many of the witnesses expressed concern for the impact higher tuition rates will have on students from minority or disadvantaged backgrounds. The National Parent Teacher Assocation (PTA) argued that rising college costs and declining federal student aid has had a negative impact on some poor and minority students' ability to attend college. Since 1976, undergraduate minority enrollments have declined in proportion to high school graduation rates. Today, there are fewer black students enrolled in college, both in absolute numbers and as a percentage of all undergraduates, than there were six years ago. Hispanic enrollment has also remained below total representation in the population.

At the same time, Representative Major Owens encouraged the Subcommittee to look to the future. "Not enough attention has been paid to the fact that demographic trends show that a larger and larger percentage of the people in the age group which goes to college are going to be minorities, disadvantaged minorities, Hispanics, and blacks, and that the poverty level, the income level of those families is far lower than a majority of those who are currently defined as needy. We are going to have to reach deeper. Financial aid is going to have to be greater for these students."

According to the PTA, "If the relative wealth of a student or a student's family may deny access to a college of their first or second choice, we are creating a system of higher education that is based on the ablility to pay -- an economic apartheid".

Kenneth Green, commenting on the relationship between income and college application status, noted that between 1980-1986 the number of freshman applicants from families with incomes less that $25,000 declined by 10 percent; while the percentage of freshman applicants from families with incomes of less that $40,000 declined by almost 20 percent.

Illinois State Representative Helen Satterthwaite noted that a recent study of enrollment trends at Illinois institutions showed a growing number of blacks and minorities choosing to attend two-year institutions over four-year institutions. She expressed concern over the clustering of lower income students in programs at lower priced institutions that potentially lead to lower paying jobs.

The issue of student indebtedness was raised by several witnesses, including the two student witnesses. They expressed concern over the long term effects of high rates of student indebtedness. Current data shows that on the average, one-half to one-third of all students leave college in debt. In 1985, debt levels for graduates of public four-year institutions averaged $6,685. For those students attending private four-year institutions, debts averaged $8,950.

These high levels of student indebtedness follow a period of declining buying power of grant aid and rising college costs. According to a Congressional study, federal grants and scholarships have declined in purchasing power from $13 billion in 1976 to $5 billion in 1986. This loss of purchasing power may help to explain the increasing shift by students from reliance on grants to obtaining loans as a means of financing their education. And, according to Dr. Green's data, indebtedness is still on the increase. In

1986, freshman participation in the Guaranteed Student Loan program increased by almost 25 percent over 1980.

Recommendations

Witnesses offered a number of recommendations to address the issue of rising college costs.

The United States Student Association called for the implementation of cost containment standards for institutions of higher education. However, Hauptman argued that cost containment procedures such as those used imposed on the health care industry do not apply to higher education. According to Hauptman, higher education and the health-care industry have little in common. For example, the high cost of health care has been partially driven by the industry's dependency on technology. Higher education is not as dependent on technological advances and is thus not faced with the cost of such technology. Hauptman also noted that unlike health care, college consumers are very price sensitive and will tend to select an institution of higher education based on their abilty to pay. Such a pattern as this may not be in the nation's best interest since it could drive students to schools where cost, and not quality, is the major determinant of enrollment.

Dr. Bowen argued against any policy that would encourage institutions to set tuitions too low: "My worry is that we will unthinkingly charge too little -- and make too small a provision for financial aid." Bowen also felt that it is important that the federal government support some of the costlier campus activities such as basic research.

Dr. Peter Magrath encouraged consideration of the costs of higher education relative to the costs of other public services. He offered as a comparison the cost of imprisoning one person in Missouri, ($10,000) to that of tuition and fees at the University of Missouri ($5,000). He also stressed the value of higher education as an investment. The average college graduate can expect to earn $460,000 over a life time. This means that the degree holder will likely pay approxiametely $180,000 more in income taxes than the non-degree holder.

At the state level, Dr. Davies suggested that efforts and resources should be focused on providing educational opportunity, not preserving institutions. He also called for states to adopt ways to increase revenues for higher education that do not automatically mean higher tuitions.

Dr. Davies also suggested that institutions dissaggregate their student fee structure and allow parents and students to choose those services and entertainments for which they wish to pay. And finally, Dr. Davies joined President Iouse in calling for an increase in faculty productivity.

Many of the witnesses mentioned the need for savings incentives for higher education. Educational savings plans, tuition pre-payment programs, and other savings programs could assist parents to save for their children's educations. In the past some parents appeared to rely heavily upon student aid to assist them. A savings program could help educate families as to the need to save for the costs of sending their children to college.

If such savings programs are developed, they should complement and not compete with existing student aid programs. Such a program should be simple to understand and widely available to families from all backgrounds. And finally, funds saved under such a program should be available to meet the full costs of attendance at an institution, not just tuition and fees.

Summary

The hearing provided the Subcommittee with the opportunity to explore many of the issues behind rising college costs. As indicated by the testimony, there are many factors that have contributed to higher tuitions. It does not appear that institutions are choosing to increase their prices; instead, these decisions appear to be in response to the rising costs of operating an institution of higher education.

The rising prices of a college education is an issue that concerns us all. Yet, because of the complexity of the issue and the multiplicity of organizations involved, it is likely that no easy solution to the cost issue will be found. However, discussions like those prompted by this hearing will not only lead us to a better understanding of the issue, but will also build the support necessary to develop and implement such a solution.

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Chester Finn, Assistant Secretary for Educational Research and Improvement, U.S. Department of Education accompanied by Duc-Le To, Office of Educational Research and Improvement, U.S. Department of Education.

Arthur Hauptman, Consultant, American Council on Education.

Julianne Still Thrift, Senior Vice President, National Association of Independent Colleges and Universities.

Kenneth Green, Associate Director, Higher Education Research Institute, University of California at Los Angeles.

Gordon Davies, Director, Virginia State Council of Higher Education.

David Helpern, Helpern and Associates.

Frederick Barber, recent graduate of Cornell University.

Circe Pajunen, student, University of Iowa.

William Bowen, President, Princeton University, Princeton, NJ.

Douglass Cater, President, Washington College, Chestertown, MD.

C. Peter Magrath, President, University of Missouri, Columbia, MO.

Edward Wilson, Dean, Graduate School of Arts and Sciences, Washington University, St. Louis, MO.

Robert V. Iosue, President, York College of Pennsylvania, York, PA.

American Association of Colleges and Universities

National Governors' Association

The National PTA

National Conference of State Legislatures

Ray Liberti, Chairman, Florida House of Representatives

Helen Satterthwaite, Representative, Illinois State General Assembly

C.A. Berry, President, Jarvis Christian College

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