

Reining in tuition inflation

By Frank Mazzaglia

May 11, 2014

For college-bound students and their parents, March madness means more than basketball. March is when admission officers make decisions as to who will and who will not be admitted to college. April is more often a time for celebration and congratulations. Its not till May or June when families come to grips with the high cost of college. Focus then turns to how to cover ever rising college costs..

Back in 1987 when William Bennett was Secretary of Education, he argued that federal aid to education was the fundamental reason that colleges raised tuition. He told the New York Times, If the federal government gives money through financial aid, tuition goes up. If the federal government does not give money, tuition goes up. But the availability of federal funding drives it up more quickly and more surely. Federal money just makes it easier for colleges to raise tuition. Theres more money available. Today, the reason why tuition continues to grow higher each year is not just because the federal government offers tuition aid to students. Rather, its because the federal government offers student aid to all students.

Unsubsidized Stafford loans and PLUS loans sharply increase the number of students with the means to attend college. It also increases the amount of money at everybodys disposal. With more students and the almost limitless pool of loan money available, demand for college increases sharply. Because federal aid is directly tied to attendance, colleges can continually raise tuition.

This is how it works. Each college establishes the total cost of attendance at that institution. Then, following federal guidelines, the college calculates the total amount of aid that a particular student can receive based on the differences between each familys ability to pay and the schools total cost. This allows the college to request any amount of money as long as it does not exceed the amount for which the students is eligible. Increasing tuition simply raises the students maximum eligibility for need-based aid. This, of course, also increases the students debt. The total amounts of Stafford loans have limits. However, PLUS loans are unlimited. The easy availability of PLUS loans make them particularly popular even with their slightly higher interest rates, and the fact that borrowers usually must begin paying back these loans while still in school.

To resolve the problem, some scholars from the Cato Institute have advocated phasing out the loan program entirely. However, that's really politically implausible. If anything, hard-pressed families demand more aid not less.

The Manhattan Institute proposed using the federal loan program as a lever to control colleges. That would then require public and private colleges to lower tuition in order to compete for available student money.

A third, and more promising, solution is to empower students and their parents by restructuring the federal loan program around the individual student rather than around the decisions of college administrators who set the tuition rates. If the federal government set equal awards on the median cost of attendance at the specific level of higher education (public or private, undergraduate or graduate, college or university) it would force colleges to compete for students with equal amounts of available money instead of taking into account the cost of a specific institution.

The colleges, of course, would counter that this makes it more difficult for low-income and high-achieving students to attend elite private colleges. The truth is that lower-income high achieving students are already unrepresented in these colleges. It's the current system that works against the interests of students and their parents while creating a super-wealthy class of students at elite colleges.

At a time when the Higher Education Act is facing reauthorization, college-bound students and their families must become pro-active. Congress should hear from these higher education consumers and consider innovative ways to assist them rather than providing college administrators with simple formulas to drive up tuition costs.