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Genuine Change Won't Come this Way

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Genuine Change Won't Come this Way

By Neal McCluskey - May 14, 2009

If you "genuinely" intend to fix a problem you probably want to know its true causes, right? Not so Vice President Joe Biden, or at least his Middle Class Task Force, which recently released a report on college affordability that essentially ignored possibly the biggest of all tuition inflators: ever-growing student aid. With the Obama administration promising to greatly expand federal student assistance, this omission could be disastrous.

"[T]he growth of college tuition is far outpacing that of family income," Biden said at the report's unveiling. "This is something we are genuinely, genuinely committed to changing."

In fairness to the Veep, the possibility that aid would drive tuition inflation might be something he's never heard before. After all, the higher education community has long denied that growing aid, especially from government, fuels inflation by letting schools raise prices without consumers feeling much of the pain. But it makes perfect sense.

Suppose I'm willing to buy a hotdog for one dollar, but then get a dime in frankfurter assistance. Now I'll happily pay \$1.10. And then suppose my local wiener retailer, from whom I've always bought one-dollar dogs, knows I've got that aid. By charging \$1.10 he can make himself richer without making me any worse off. It's tuition inflation in a nutshell or bun, as the case might be.

College pricing and aid data strongly suggest this dynamic is at work. For instance, between 1986 and 2006, published tuition, fees, room and board prices at four-year private colleges rose an inflation-adjusted 68 percent. But students didn't cover most of the increase with their own money. They got grants, cheap loans, and other forms of assistance that made their perceived increase only about half that of the published amount. That big difference gives strong reason to believe that "sticker prices" were only able to rise so high because consumers felt just a fraction of the pain, and schools knew it.

Of course, college pricing isn't driven only by student aid. There are several variables in play. Unfortunately, the Middle Class Task Force failed to acknowledge this, largely glossing over the potentially inflationary effect of aid, and piling blame primarily on one, all-too-popular scapegoat: cheap state and local governments.

"[T]he majority of the rise in tuition in recent years is increasingly attributable to cost-shifting," the report asserts. "The use of increased tuition to offset lost revenue from elsewhere is particularly pronounced in public higher education, as falling state and local appropriations have forced institutions to increase tuitions in order to maintain their revenues."

This theory is popular with ivory tower folks and politicians, giving the former cover to cry poverty when lobbying state legislatures, and the latter a tremendous opportunity to buy votes by increasing aid. But the theory is seriously flawed.

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For one thing, stingy state and local spending can't explain tuition inflation in private schools, which the task force itself puts at 154 percent between 1979 and today.

In addition, total taxpayer burdens for public institutions haven't fallen. According to the federal *Digest of Education Statistics*, between 1990 and 2005 (the latest year with available data), real state and local appropriations to public degree-granting institutions rose almost 15 percent, hitting nearly \$67 billion.

The only way state and local funding has dropped has been on a per-pupil basis thanks to growing enrollment, which the report ultimately notes. Even on that score, though, one can't lay most of the blame for tuition inflation on state and local governments -- tuition revenue per-student has risen much faster than government allocations have dropped.

Between 1987 and 2007, according to data from the State Higher Education Executive Officers, inflation-adjusted state and local outlays per student decreased about \$33 a year. Per-pupil revenue from tuition, however, increased almost \$67 -- a \$2 increase for every \$1 in lost public funding. And a lot depends on what years you start and end the trend: Between 1982 and 2007, the public funding trend was essentially flat, while per-pupil tuition revenues increased about \$72 per-year.

Which brings us back to the Vice President. If you "genuinely, genuinely" want to change something for the better, you first have to be honest about the problem. But Biden's Middle-Class Task Force was far from that in its analysis of college affordability, rendering any change it might support -- especially vastly increasing student aid -- almost certain to make matters worse.

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Neal McCluskey is associate director of the Cato Institute's Center for Educational Freedom and author of Feds in the Classroom: How Big Government Corrupts, Cripples, and Compromises American Education.

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