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Stubborn Things

Oh, the Money You'll Blow!

Higher education is overpriced

By BRIAN J. BOLDOC

Published: Friday, March 26, 2010

You should be grateful. Next year, you will **cost** Harvard College \$50724 in tuition, room, and board. Yet you will pay around \$11500 if you receive financial aid, as most students do. Should you thank Dean Michael Smith for his magnanimity, however, you might wonder, "Why does the College charge so much?"

Answer: Because it can.

"One of the biggest drivers of college prices is aid," Neal McCluskey, associate director of the Center for Educational Freedom at the Cato Institute, told me. "Government provides lots of aid to students so that they are not the ones paying these additional costs. Taxpayers are. Colleges are nonprofits, so they want to maximize revenue. The more aid you offer, the more they raise their prices to get that aid, because it doesn't make students worse off."

For evidence, McCluskey offered **data** from his chapter in the "Cato Handbook for Policymakers." Between 1986 and 2006, the average cost in real dollars of higher education at private schools leapt from \$18122 to \$30497, or by 68 percent. If you subtract the average grant, loan, and tax credit that students received over this period, however, the cost jumped from \$10943 to \$14158, or by 29 percent. "The loans do not completely desensitize students to the costs they cover," McCluskey wrote, "but with low interest rates and generous terms, they soften the blow."

His argument, I should note, is controversial. "I believe it is very clear in absolute terms that people are paying more than they were ten or twenty years ago," Kevin Carey, policy director of Education Sector, told me. Still, Carey thinks McCluskey has a point: "Econ 101 would say that if you subsidize a product, some of the subsidy will end up in the consumer's pocket and some of it will end up in the producer's. It doesn't matter who you give it to."

But Carey spied a different devil: nonprofit status. "Harvard doesn't pay taxes even though it's sitting on a gigantic pile of money," he said. He suggested that the government force colleges to spend five percent of their endowments each year. "If you're running the Gates foundation, you have to spend five percent of your assets every year. You can't just sit on the money. If colleges spent just five percent of their assets, then they could take that extra money and use it to keep prices down.

Notice the word "could." More likely, colleges would spend that money on other things, as per tradition. "The number of administrators per student has gone up but you can also see the facilities arms race," McCluskey said. "Colleges are constantly building buildings or new dormitories."

This arms race incriminates another suspect: accreditation. "Not anyone can be in the college business. You have to be accredited. There are pretty high barriers to entry both from a cost perspective and from a reputational perspective," said Carey. The need for accreditation drives schools to make purchases—and to raise prices. For example, the University of Colorado Law School had to increase its tuition because the American Bar Association demanded that its **library** include things like electrical outlets for laptops and an instructional courtroom.

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The problem, therefore, is that the market for higher education is rigged. Schools block cheaper competitors from entering, and government encourages prices to rise. True, these observations have less salience for private schools. You cannot change the fact that lots of people want to go to Harvard, and there is only one Harvard. Plenty of them can pay. Besides, federal aid, like Pell Grants, covers only a fraction of tuition; their inflationary effect is smaller on these schools.

But you can question the hand that feeds you, especially when it offers seconds. During his presidential campaign, President Barack Obama promised students \$4000 tax **credits** to help pay tuition in exchange for 100 hours of community service. And this week, the House of Representatives voted to cut subsidies to private lenders who loan to students, so the government could lend to students directly. McCluskey feared that with the expected savings from this change, the government might increase Pell Grants. And if President Obama got his tax credit, the government could push tuition even higher.

So, as I said, you should be grateful—that our politicians have yet to fulfill their promise.

Brian J. Bolduc '10, a Crimson editorial writer, is an economics concentrator in Winthrop House. His column appears on alternate Fridays.

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