

<http://chronicle.com/weekly/v50/i24/24b02001.htm>

POINT OF VIEW

Tying Tuition to the CPI: Why It Doesn't Add Up

By ALEXANDER W. ASTIN

As a way to keep the cost of higher education affordable, Republican members of Congress have introduced legislation to punish colleges and universities that raise their tuition twice the rate of inflation or more. What is perhaps most ironic about their bill is that it would almost certainly have precisely the opposite effect were it to become law: Rather than enabling more students with limited means to attend college, it would make it increasingly difficult for such students to afford to attend college.

Certainly the most lamentable feature of the draft legislation is the yardstick being used to define a tuition increase as "excessive." On its surface, the proposal may sound reasonable: Tuitions shouldn't increase faster than the Consumer Price Index. However, that argument ignores a critical reality about American higher education: The tuition and fees that most colleges and universities charge do not cover the full costs of operating those institutions. Indeed, at many institutions, especially our public colleges and universities, tuition and fees cover far less than half of those costs.

It takes only a bit of sixth-grade arithmetic to realize the drastic fiscal consequences that the proposed legislation would inflict on our colleges and universities. While the higher-education associations have been doing a pretty good job of pointing out many of the problems with the proposed legislation, I've not seen them focus as much attention on such arithmetic realities.

Let's start with our public institutions and use a hypothetical example. Annual per-student costs now run around \$10,000 a year or more at many of those institutions, but their tuitions are far less -- some are as low as around \$2,000 per year. Now, suppose the CPI inflates by 5 percent, to pick an arbitrary number. Since that index is a rough measure of the costs of goods and services in our country, it's reasonable to assume that the costs of operating such colleges would also increase by roughly 5 percent, or \$500 per student per year.

In a college of 20,000 students, those increased costs would amount to \$10-million per year. Clearly, unless its state legislature were to come through with more money -- a highly unlikely scenario given the budget crises now facing most states -- the institution would need to rely on tuition increases to meet its increased costs. If the Republicans' "affordability" proposal were in effect, such a college would be forced to limit its tuition increase to 10 percent (twice 5 percent), or \$200 per student, which would generate only \$4-million in additional revenues. In other words, under the proposed legislation, this college and others like it would be allowed to cover less than half of their increased costs through tuition increases. That discrepancy -- \$4-million versus \$10-million -- would thus result in a budget shortfall of \$6-million.

That fatal flaw in the proposal -- judging tuition rates by their "percentage increase" -- would spell disaster for many, if not most, public institutions, the very institutions that educate most of our neediest students. But it would also have severe negative effects on many private colleges and universities. While

private colleges that are "tuition driven" (meaning that tuition income pays most of their operating costs) would suffer less, those private institutions that heavily subsidize their students, primarily through substantial endowments, would be severely penalized. Why? Because their tuition revenues, like those of most public institutions, cover only a fraction of their operating costs.

In fact, the widespread public perception that college tuitions are "excessive" or have been rising "too fast" has been fueled largely by the use of the flawed "percentage increase" yardstick, as *The Chronicle* and other print media regularly publish charts comparing CPI percentage increases with percentage increases in college tuitions. When the college-tuition curve, in comparison with the CPI curve, accelerates at a faster rate -- as it must if colleges are merely to keep pace with increased costs -- higher education is accused of being wasteful, if not greedy. As long as we continue the practice of comparing the two curves, we're giving our higher-education institutions a bum rap.

While the proponents of the legislation claim to be motivated by a desire to keep college "affordable," especially for poor students and students of modest means, it will almost certainly have the opposite effect, for several reasons.

First, almost all colleges and universities in the country, but especially the private ones, use a significant amount of their tuition revenue for financial aid. If inflation creates a potential budget shortfall for a private institution, and if the "affordability" legislation makes it impossible for that institution to match the shortfall through a tuition increase, how is it to make up the difference? Obviously, the temptation to cut back on financial aid will be great, a choice that will force the institution either to favor its well-to-do applicants over its poor applicants in the admissions process, or to offer less aid to the latter. In other words, the "affordability" proposal promises to make college *less* affordable for needy students.

Another factor is the effect that the legislation may have on enrollments. If, as a college president, my institution were covering only a fraction of its expenses through its tuition revenues, then I would be tempted to deal with a budgetary shortfall by cutting back on enrollment, thereby laying off faculty members and administrators and reducing other costs associated with that enrollment. In other words, given that my tuition charges covered only a fraction of my costs, the reduced costs might easily exceed the lost revenues associated with reduced enrollment. Under such conditions, the temptation to cut back selectively on needy students -- who require the most financial aid -- would be especially great. To compound the problem, that temptation would be greatest in the most "affordable" institutions -- those with the lowest tuition relative to their costs.

During the 1980s, then-Secretary of Education William J. Bennett fueled concerns about rising college tuitions, arguing that generous federal and state student-aid programs were encouraging colleges to raise their tuitions because students could now afford to pay the higher costs. However, at around the same time, my organization, the Higher Education Research Institute, completed an elaborate state-by-state study -- with support, in fact, from the U.S. Education Department -- that found precisely the opposite effect: Private-college tuition showed minimal increases in those states with generous aid programs, while tuition increases tended to be largest in states that either cut back on their student- and institutional-aid programs or provided minimal financial aid.

The somewhat paradoxical mechanism underlying such effects is well known to institutional fiscal officers: If state and federal financial aid fails to keep pace with student need, the institution can most readily make up the difference by raising tuition. In other words, governments at all levels can help keep tuition down by making sure that financial-aid programs keep up with student need.

If the members of Congress who support it really understood the basic unfairness and draconian fiscal consequences of what is being proposed, it is difficult to believe that at least some of them would not

abandon their support for, or at least propose modifications in, this particular provision of the reauthorization legislation.

There may be alternative methods of accomplishing the goals of the affordability proposal that would be less unfair to institutions -- for example, by comparing absolute dollar (as opposed to percentage) increases in tuition with absolute dollar increases in per-student costs, or by taking into account how much of its tuition revenues an institution allocates to student aid. But because such alternatives would necessarily require complex legislation and be difficult to enforce, Congress might want to find other ways to help colleges keep pace with student need rather than simply impose unjust or unworkable limits on them.

Alexander W. Astin is director of the Higher Education Research Institute at the University of California at Los Angeles.

<http://chronicle.com>

Section: The Chronicle Review

Volume 50, Issue 24, Page B20

[Front page](#) | [Career Network](#) | [Search](#) | [Site map](#) | [Help](#)

Copyright © 2004 by The Chronicle of Higher Education