Through a Different Lens

A New Angle on the Price Spiral in Higher Education

The history of higher education since World War II is often presented as a cadenced tale, one marked by distinct social and economic trends that are roughly parsed by decade. The first period, from 1945 to 1960, is touted as higher education's golden age, as the GI Bill and other programs helped to extend a college education to a broader range of American citizens.

The 1960s are characterized as a period of ferment, protest, and turmoil on college campuses, and the 1970s as a time of recovery, inflation, and then—like the rest of the economy—stagflation. In the 1980s, higher education is said to have experienced a renewed period of growth and opportunity accompanied by spiraling tuition, while in the 1990s, it experienced a time of consolidation and the rebuilding of financial resources following the deep recession that marked the beginning of the decade.

A group of researchers at the Institute for Research on Higher Education (IRHE) has been revisiting higher education's last half-century—not from the perspective of deepening this often-told narrative but from one of exploring history according to market behavior. In the group's work, featured in this issue of *The Landscape*, a different picture of higher education develops: when the focus is on markets and prices, the result is a much more consistent and less cadenced account of higher education finance over the last 50 years.

The Virtue of Hindsight

As part of a collateral project examining the underlying costs of delivering an undergraduate education, National Center for Postsecondary Improvement (NCPI) researchers Robert Zemsky of the University of Pennsylvania and William Massy of Stanford University led a team at IRHE in exploring the price spiral in higher education.

Their analysis begins with a look at price increases in nominal (then-current) dollars at an individual institution—in this case, the University of Pennsylvania. The trends displayed in Chart 1 roughly correspond to those in the traditional story: steady, reasonable prices that expanded access through the 1960s; a sharp upturn in tuition that represented a delayed catch-up with inflation in the 1970s; and a continued escalation in the price charged over the period of increased opportunity and growth in the 1980s and consolidation in the 1990s.

However, when that same chart is recast in constant dollars, a different shape emerges. Rather than depicting a recent tuition spiral, the rise in price appears as a steady—indeed, constant—increase over the last half-century. (See Chart 2.)

The University of Pennsylvania has substantially increased the tuition it charged its students faster than the

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Chart 1
University of Pennsylvania Tuition and Fees, 1950 to 1998, in Nominal Dollars

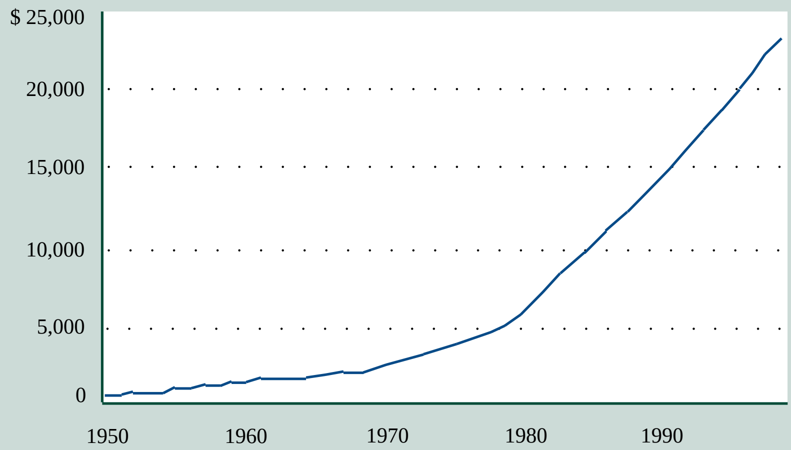
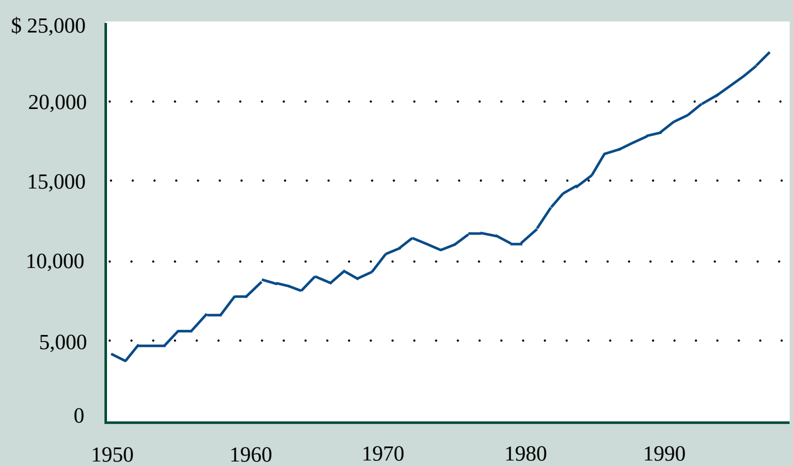


Chart 2
University of Pennsylvania Tuition and Fees, 1950 to 1997, in Constant Dollars (CPI Base Year, 1997)



underlying rate of inflation in every decade except the 1970s, when price increases matched that rate. What looked like the exaggerated price behavior of the 1980s and early 1990s, when higher education was accused of gouging its customers, seems to be business as usual when cast in constant dollars.

In the next part of its analysis, IRHE examined the price behavior of market leaders in both private and public higher education. Representing private institutions are members of the Consortium for Financing Higher Education (COFHE), a veritable club of the nation’s most expensive and selective research universities. For public institutions, the analysis focuses on the “Big Ten.”

A mapping of the minimum, median, and maximum price increases for these selective private and public institutions over time is depicted in Charts 3 and 4, respectively. For both types of institutions, the displays show how, over two decades, tuitions at all three points of the distribution were tightly bundled, as the price leaders in each market niche set the pace, with their competitors following close behind. Public institutions charging in-state tuitions at the top of the market maintained a substantial margin over their competitors, and the trends in price over the course of two decades were relatively consistent.

These fairly stable trends also characterize pricing behavior across the market from the 1970s onward. Chart 5 presents constant tuition increases by market segment and institutional type. As expected, private colleges and universities prove to be far more aggressive in pursuing price hikes than public institutions—a pattern that would hold even if the discounted price were to be graphed. Yet, although the magnitude of these increases is different, the shape of the slope is almost identical.

How do enrollment patterns correspond to the pricing patterns of colleges and universities according to their market position? Chart 6 contains the enrollment rates of public and private institutions by market segment, as defined in the November/December 1997 issue of *The Landscape*. "Name-brand" institutions are the most expensive and prestigious colleges and universities in the higher education market, while "core" institutions form the bulk of the market, most often serving local students looking for a mix of traditional and more flexible collegiate experiences.

Essentially, Chart 6 shows that the most expensive private institutions increased their tuition dramatically and marginally increased their enrollments—maintaining their selectivity in the market for higher education. Other private institutions managed to meet their primary goal during this period: to maintain their enrollments in the face of stiffer competition. In all, the number of students matriculating at private institutions remained relatively stable.

For public institutions, the story is quite different. Clustered at the top of the chart are the enrollment figures for public name-brand and core universities. Constrained in their ability to increase prices, these public institutions were more likely to increase their enrollments and to do so at dramatic rates in the 20 years between 1970 and 1990.

As the last decade of the 20th century began, however, public universities in the core market began to experience worrisome enrollment shortfalls. Researchers at IRHE contribute this decline to a shift in the market that, in the midst of an economic boom, allowed an increasing number of student consumers to "shop-up": students interested in enrolling in public universities essentially began moving from core to name-brand institutions whenever possible.

Chart 3
Tuitions at COFHE Research Universities, 1972 to 1995, in Constant Dollars (CPI Base Year, 1997)

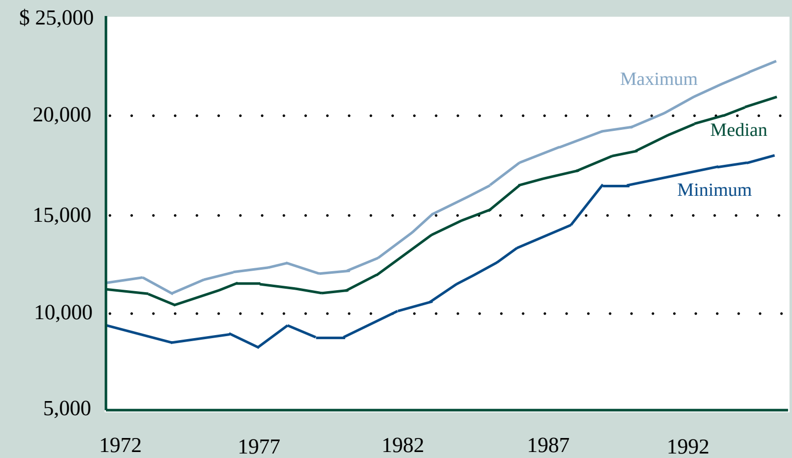


Chart 4
Tuitions at the Top Ten Public Institutions, 1972 to 1995, in Constant Dollars (CPI Base Year, 1997)

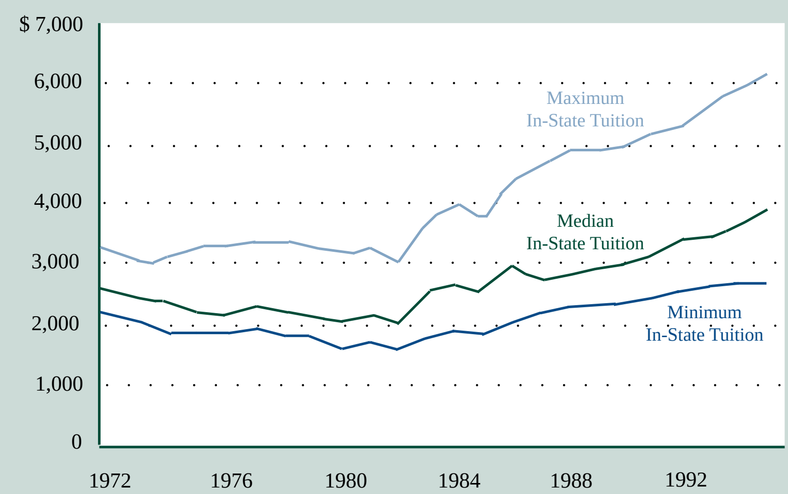


Chart 5
Tuitions by Market Segment and Institutional Type, 1970 to 1995

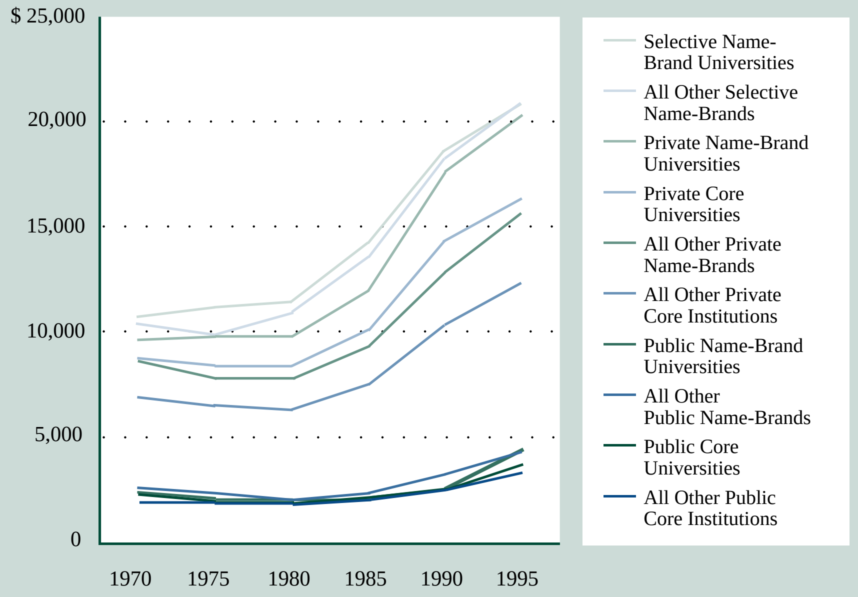
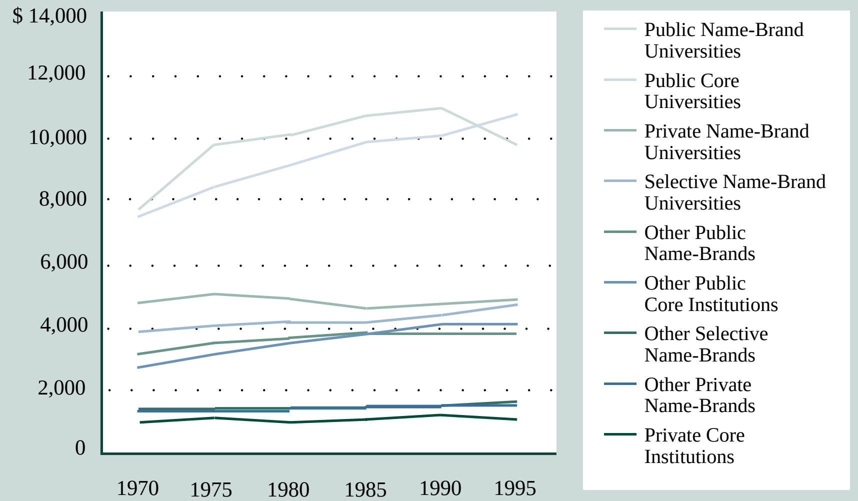


Chart 6
Median FTE Undergraduate Enrollments, 1970 to 1995



A Perspective on Price and Position

While the temptation in recent years has been to cast colleges and universities—particularly those occupying the selective part of the market—as participants in price gouging, a longer look back tells a slightly different story. Rather than characterizing tuition increases as what, in nominal terms, seem to be rapid price hikes over the last 20 years, it is important to place the tuition spiral in the context of higher education's last half-century. Extending the graph of increases in real tuition prices before the 1970s shows as consistent a slope as the one evident in the decades that followed—one that seems to be not so steep in the long run.

What is both more intriguing and less consistent is the interaction of price and enrollment over the last 20 years. Private institutions were able to stay the course, increasing tuition revenue at a consistent pace without significantly changing their enrollment rates.

Public institutions, on the other hand, were constrained in their ability to increase tuition, but they still required a way to offset the loss of public dollars in their revenue stream. They chose to increase enrollment, at times dramatically—not a difficult feat, considering the attractive price differential between public and private tuitions. But the windfall had its limits, as less selective publics ultimately lost enrollment to their more prestigious peers. □