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How the Government Exaggerates the Cost of College

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The government's official statistic for college-tuition inflation has become somewhat infamous. It appears frequently in the news media, and policy makers lament what it shows.

No wonder: College tuition and fees have risen an astounding 107 percent since 1992, even after adjusting for economywide inflation, according to the measure. No other major household budget item has increased in price nearly as much.

But it turns out the government's measure is deeply misleading.

For years, that measure was based on the list prices that colleges published in their brochures, rather than the actual amount students and their families paid. The government ignored financial-aid grants. Effectively, the measure tracked the price of college for rich families, many of whom were not eligible for scholarships, but exaggerated the price – and price increases – for everyone from the upper middle class to the poor.

You can think of it as the Joseph A. Bank problem, in honor of the men's retailer where clothes are permanently on sale. If you take Joseph A. Bank's sticker prices literally, you don't understand its business.

The good news is that the Bureau of Labor Statistics has gradually begun to change its methods since 2003, to capture the effects of financial aid. It will take more time to know how well those efforts are working. But the bureau won't alter the historical data, which means the long-term comparisons will never capture the actual cost of college for American families.

Those oft-cited comparisons, notes Sandy Baum, a George Washington University professor and an expert on college costs, says, are "certainly misleading."

The discrepancy matters because the country is in the midst of a roiling debate about whether college is worth it. Various pundits on both the left and right have taken to claiming that higher education is overrated and often not worth it. The shocking increase in college costs, according to the official Bureau of Labor Statistics numbers, is part of their argument.

I know what you're thinking at this point: *Wait a minute – college really is expensive and has gotten a lot more so.* It's certainly true that public colleges have become more expensive in recent years, partly because of state budget cuts. These rising costs have created financial struggles for many students and, most worrisome of all, have kept some from graduating or even applying in the first place. By almost any economic calculation, the country would be better off if college were more affordable for middle- and low-income families.

At the same time, it's worth remembering that the perception of college costs comes in large part from the high list price of private colleges. The next time you hear somebody describe college as costing \$60,000 a year, know that the truth is: It costs \$60,000 for affluent students who don't qualify for financial aid to attend one of the elite colleges that a tiny share of Americans attend (and the figures includes housing and food).

Taking into account financial aid — some of which comes from the colleges themselves, some of which comes from the government — the average tuition and fees were \$12,460 at private colleges last year and \$3,120 for in-state students at public four-year colleges, according to the College Board. At those prices, college is an investment with an excellent return for the vast majority of students who graduate.

So what's going on with the government's numbers? They show tuition and fees more than doubling since 1992 (that is, having risen more than 100 percent), after adjusting for the change in the value of a dollar. By comparison, gasoline has become 83 percent more expensive over that time. Child care is up 44 percent, medical care up 35 percent and supermarket food up 3 percent. On the other end of the spectrum, the cost of new vehicles has fallen 34 percent in real terms, and the cost of furniture is down 39 percent.

These are the kind of comparisons that show up in those scary charts making college tuition look as if it's in a different league from almost everything else. The only high-profile category with a price that has increased more rapidly is tobacco, because of the surge in taxes over the last two decades.

Fortunately, the government isn't the only organization that collects data on college tuition over time. The College Board also does, and it publishes different indexes on published tuition and net-price tuition, separately for public and private colleges. (Only scholarship grants are considered in the net-price calculation. Loans, appropriately, are treated as part of the tuition that families are really paying.)

Net tuition and fees at private four-year colleges have risen 22 percent since 1992, the College Board says, and the increase has been 60 percent at public four-year colleges. Community-college tuition has declined, because aid grants have outpaced published tuition. These numbers are obviously quite different from the government's index showing a 107 percent increase.

From an economic perspective, the College Board's net-price data makes more sense than the government's index. Higher education is a white-collar service industry that is split between the public and private sectors and largely immune from foreign competition, much as health care is and, to a lesser extent, day care is. We shouldn't be surprised that the actual increase in real college prices over the last two decades – somewhere in the range of 40 percent to 50 percent – is quite similar to that of health care or day care.

Coincidentally, sticker prices and net prices for college have changed by broadly similar percentages in the last several years, which is why it's too early to know whether the government's new methodology will be less misleading. But I'm hopeful. "We feel our financial-aid program additions have definitely had an impact," Mike Reese, the education analyst at the Bureau of Labor Statistics, told me.

There is one broader point worth making about inflation. We've been in the midst of a mini-boom in inflation conspiracy theories, be it from the writer Amity Shlaes in National Review or from the website shadowstats.com. These critics contend that, despite overwhelming evidence to the contrary, inflation is much faster than the government acknowledges.

The truth is closer to the opposite. The official numbers probably exaggerate inflation somewhat, academic research has found. The main reason is the difficulty of accurately capturing technological improvements over time. Imagine trying to compare the price of a MacBook Air in 2014 with a Commodore 64 in 1985.

But the problems with the college price index matter, too. There, as elsewhere, the inflation scare stories don't match reality.

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