

RESEARCH SUMMARY

Government Policy and Tuition in Higher Education

Between 1990 and 2013, the average listed tuition for US institutions of higher education increased by 71 percent. For many students, this cost represents a significant barrier in their way to a better life: according to the Bureau of Labor Statistics, the unemployment rate for college graduates is half that for those who graduated high school but not college, and college grads earn almost twice as much per week.

These data points make it clear why the case for making college more accessible, especially for lower-income students, receives bipartisan support. But what explains the steady rise in tuition? There may be three factors at work: the cost of providing higher education may be growing over time, there may be an increase in demand for higher education, or more government subsidies may encourage colleges to raise tuition in order to capture a greater portion of the subsidies.

A paper for the Mercatus Center at George Mason University reviews the evidence supporting these three hypotheses, with special emphasis on the role that government subsidies play in tuition pricing. Government subsidies for higher education may reduce the price that many students pay to attend college; however, the study finds some evidence that subsidies also cause schools to charge higher sticker prices. This becomes a vicious cycle as the government is forced to provide even larger subsidies to keep down prices paid by students, with taxpayers paying a greater share of the bill.

To read the paper in its entirety and learn more about its authors—Angela K. Dills, Rey Hernández-Julián, and Nathan Hale—see [“Government Policy and Tuition in Higher Education.”](#)

KEY FINDINGS

- *Subsidies ensure that few students pay the “sticker price” for college.* Between 1990 and 2010, total on- and off-budget federal support for higher education increased from about \$40 billion to more than \$160 billion. State support for higher education decreased in recent years as state governments were forced to cut expenditures during the Great Recession. Even so, the average price paid by students has risen much more slowly than tuition, though it has risen faster than inflation.
- *There is little evidence that government subsidies make college more affordable.* At best, by filling the gap between what students actually pay and the “sticker price” for college, federal subsidies make paying for college no *more* difficult than it would be otherwise. This simply represents an increase in wealth transfers from taxpayers to students and universities. At worst, however, policymakers’ efforts to make college more accessible could themselves make it harder for students to afford college, especially in the case of students who are ineligible for subsidies.
- *There is mixed evidence that more aid leads to higher tuition.* While there is some evidence that tuition increases as federal aid to students increases, the magnitude of this effect appears to depend on the type

of institution: increases in federal aid influence tuition most at for-profit schools and private colleges and universities. The effects are felt least at public, in-state institutions, which often are not allowed to increase tuition without the approval of state governments.

- *Government subsidies for higher education are not equivalent to poverty reduction.* Although subsidies frequently target lower-income students, there is evidence that those who benefit the most from subsidies are the students already most likely to earn a higher income later in life, while many other students drop out early and thus do not benefit from the full subsidy.

CONCLUSION

Policymakers can help increase access to higher education by helping lower-income families navigate the complex financial aid process or by overhauling that process. But, as long as government subsidies continue to distort the price of higher education, tuition is never going to reflect the true cost—and benefit—of college.