

# WHATS CAUSING PERPETUAL TUITION INFLATION?

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## Introduction

Tuition is a sensitive topic nowadays with the reintroduction of the student loan payments likely happening in the next few months. Yet few people seem to be interested in discussing how we got here and whether the dramatic rise of tuition in the past few decades is even warranted. In this report, we will address these and other issues through the lens of Arizona State University to ultimately determine a best course of action for sustainable tuition growth going forward.

## The History of the Costs of College

Tuition inflation is an unfortunate reality that has plagued the United States for over 50 years and Arizona State has not been immune. Arizona State University's tuition and fees have increased roughly 32% in the past 10 years, as demonstrated in figure 1 on the right<sup>1</sup>. Unfortunately for students, this growth is small relative to history. According to another article posted by AZ Central, ASU's tuition and fees for in state students grew by roughly 200% between the academic years of 2003 and 2018<sup>2</sup>. According to the same article, Northern Arizona University's tuition and fees have increased 221% while the University of Arizona's grew 243% during the same time-period. Taking a step back, the situation is even worse nationally. The average cost of tuition in 1963 (adjusted for inflation) was right around \$4,300, in 2020 that figure had grown to nearly \$14,000<sup>3</sup>. In the next section we will dive into what exactly what is driving these price hikes and whether they are even necessary.

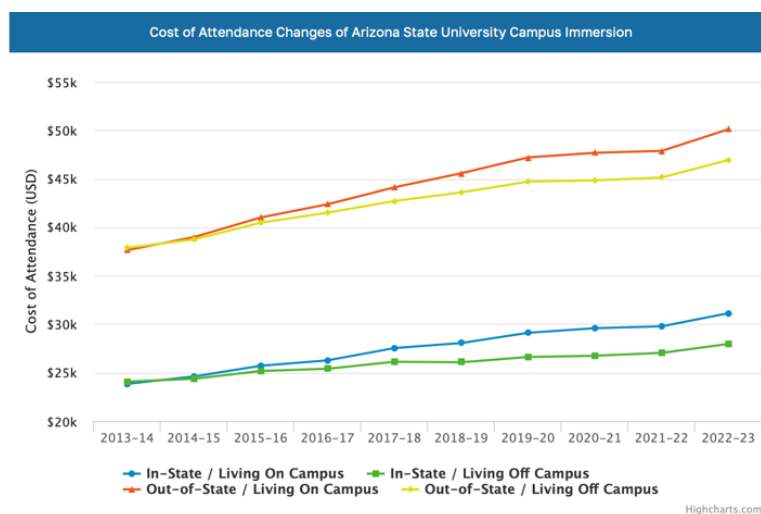


Figure 1 (Source: College Tuition Compare)

<sup>1</sup> College Tuition Compare. "Tuition, Fees, and Living Expenses at ASU Tempe". College Tuition Compare.

<sup>2</sup> Monroe, Annalee. "How Arizona Compares with the rest of the country for college tuition hikes". AZ Central. The Republic. 2019

<sup>3</sup> Bryant, Jessica. "Cost of College over Time: Rising Tuition Statistics". BestColleges. 2023. 1

What’s driving tuition inflation?

So why has tuition grown so aggressively in Arizona and across the nation? Well, the first and arguably most important factor considered when determining tuition is the cost of the goods and services purchased by the University to provide its service of educating students. The HEPI is an index which groups these goods and services together, weights them according to university spending behavior, and tracks them over time. This index thus measures the inflation of the goods and services purchased by higher education schools much like how the CPI measures the inflation of goods and services purchased by households. As you can see, since 1980 the price increases

of these HEPI goods and services have continuously outpaced those purchased by households<sup>4</sup>. Of course, much of this is self-inflicted. When one college purchases new materials, builds a new building, or upgrades pay to educators the university’s competitive counterparts also feel the need to do so. This positive feedback loop

is allowed to exist because of nearly infinite access to financing by the Federal Government in the form of student loans and government grants. This brings us to the second core reason for recent tuition inflation: lack of shrinking state government funding.

**FIGURE 1**  
**HIGHER EDUCATION PRICE INDEX**

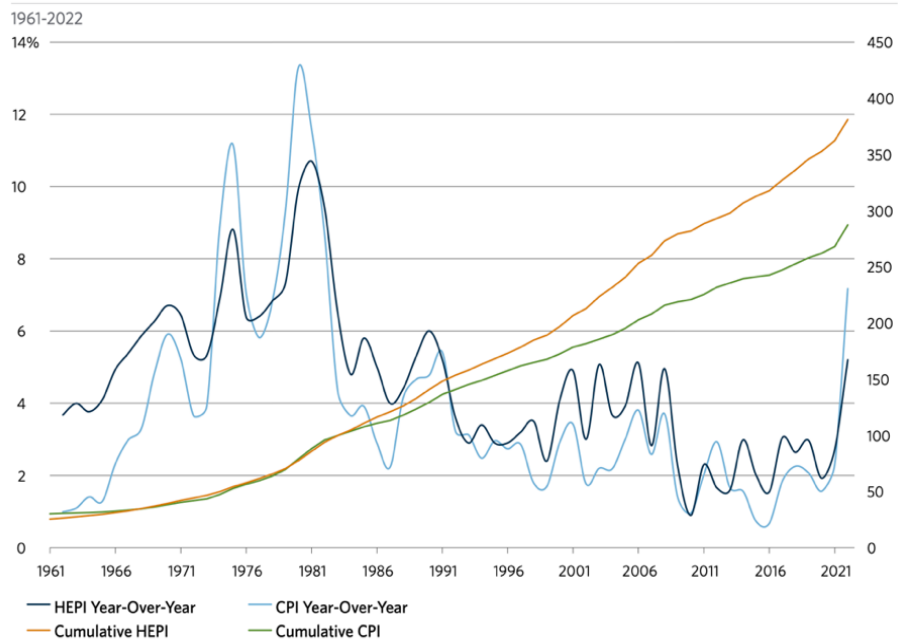


Figure 1 traces the Higher Education Price Index (HEPI) and the Consumer Price Index (CPI) from 1961 to 2022. Cumulative HEPI is represented by the steadily increasing orange line, indexed to 100 for 1983, and should be read using the right-hand scale. The jagged lines trace percentage year-over-year changes in HEPI and CPI and should be read using the left-hand scale. In this chart and in the supporting data in Table A on page 3, HEPI and CPI are presented in two ways—as an index level and as a year-over-year percent change. HEPI data beginning with FY2002 have been restated to reflect the methodological improvements adopted in 2009.

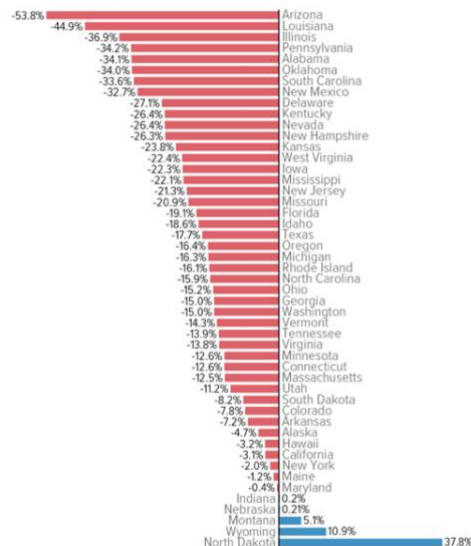
Figure 2 (Source: Commonfund Institute)

<sup>4</sup> Commonfund Institute. “Commonfund Higher Education Price Index: 2022 Update”. Commonfund Institute. 2022. 2

States substantially cut funding to Higher Education after the Great Recession in 2008. The chart on the right displays the extent of these cuts by state, as you will notice Arizona is at the top of that list cutting funding by just over 50%<sup>5</sup>. Nominally, this equates to state of Arizona contributing around \$3,540 per student less in 2017 than in 2008. So, there is no doubt that the costs levied and the funding supplied have created a monetary hole in need of filling, but the growth of this hole justify doubling the cost of tuition between 2003 and 2018? Well while it doesn't tell the full story behind that dramatic pace, reduced government funding does explain a good chunk of it. This next graph from ASU's economics desk shows how reduced educational appropriations have coincided with continued upward pressure on student tuition and fees while weighing on total educational revenue. As a result of the lost support, students now have to pay a roughly 30% larger share of their tuition pie than they did prior to 2008<sup>6</sup>. Of course, we must not forget that while all of this was happening, the total cost of tuition rose substantially purely from good, service, and wage inflation over time, as shown earlier. Finally, I would like to emphasize the relative nature of these facts regarding tuition inflation. Thus far we have looked at the

**State Funding for Higher Education Remains Far Below Pre-Recession Levels in Most States**

Percent change in state spending per student, inflation adjusted, 2008-2017

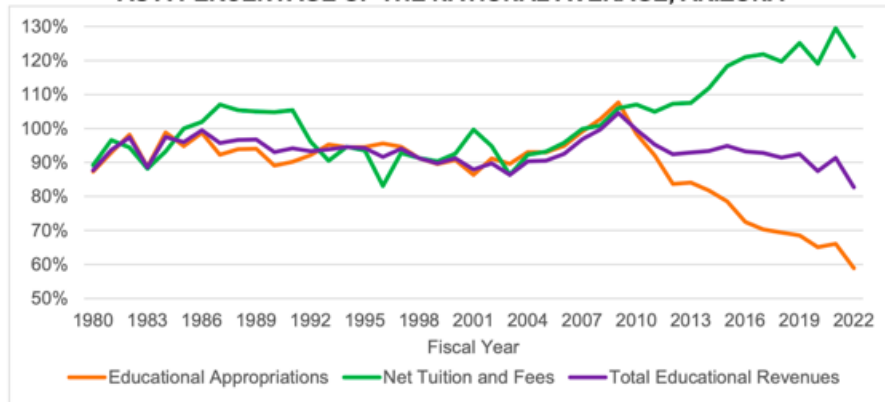


Note: Wisconsin was excluded because the data necessary to make a valid comparison are not available. Since enrollment data is only available through the 2015-16 school year, we have estimated enrollment for the 2016-17 school year using data from past years.  
 Source: CBPP calculations using the "Grapeline" higher education appropriations data from Illinois State University, enrollment and combined state and local funding data from the State Higher Education Executive Officers Association, and the Consumer Price Index, published by the Bureau of Labor Statistics. Illinois funding data is provided by Voices for Illinois Children.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Figure 4 (Source: Center on Budget and Policy Priorities)

**CHART 2  
PUBLIC HIGHER EDUCATION REVENUE PER FULL-TIME-EQUIVALENT STUDENT AS A PERCENTAGE OF THE NATIONAL AVERAGE, ARIZONA**



Source: Calculated from State Higher Education Executive Officers Association.

Figure 3 (Source: Arizona State University)

<sup>5</sup> Mitchell, Michael, Michael Leachman, and Kathleen Masterson. "A Lost Decade in Higher Education Funding: State Cuts Have Driven Up Tuition and Reduced Quality". Center on Budget and Policy Priorities. 2017. 5

<sup>6</sup> Hoffman, Dennis and Tom Rex. "The Financing of Public Higher Education in Arizona". Center for Competitiveness and Prosperity Research. Arizona State University. 2023. 11

proponents driving tuition inflation in postsecondary education 4-year public institutions, the high cost of private for-profit institutions is not driven as much by expense growth and cuts to government funding as it is by market factors. As can be seen in the following 2 graphs from the



Figure 5 (Source: National Center for Education Statistics)

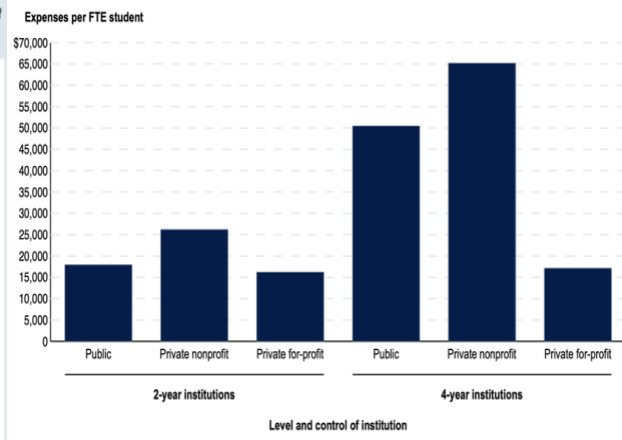


Figure 6 (Source: National Center for Education Statistics)

National Center for Education Statistics, public institutions spend more on their students because they are required to provide more services to students and the surrounding community<sup>7</sup>. This is because, they are required spend all the revenue they acquire, unlike for profit institutions. When you dive into the actual amount spent on each category, public and private for-profit institutions spend on average roughly the same dollar amount on academic support. The difference between the two lies in the fact that private for-profit institutions keep a large chunk of the tuition revenue while public institutions are forced to spend this excess capital on other services. The real kicker lies in the fact that private for-profit university students are responsible for nearly all their tuition whereas public institution tuition is mostly subsidized by the government. So, to conclude,

Figure 1. Percentage distribution of total revenues for degree-granting postsecondary institutions, by control of institution and source of funds: 2019–20

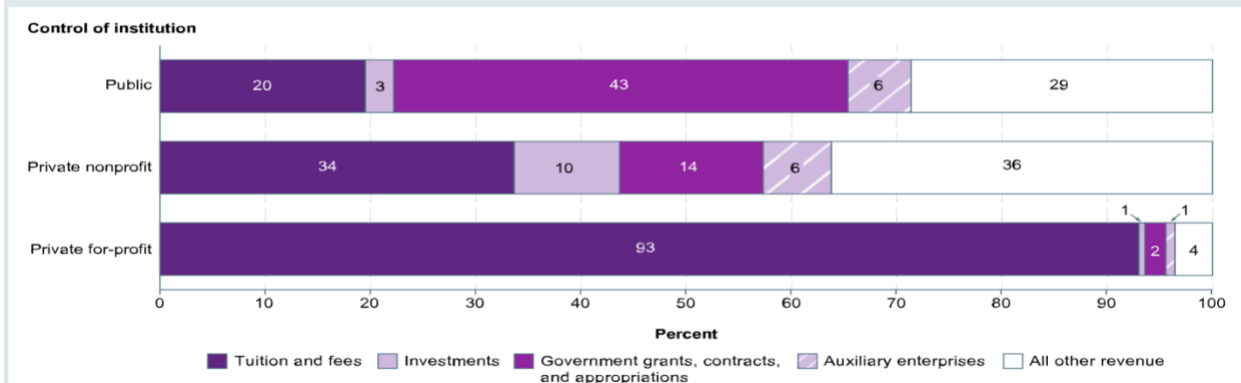


Figure 7 (Source: National Center for Education Statistics)

<sup>7</sup> Department of Education. "Postsecondary Institution Expenses". National Center for Education Statistics. 2022.

tuition inflation at Arizona's public Universities can be largely attributed to the costs of educational goods, services, and wages outpacing inflation for many years all while Arizona's funding towards public postsecondary institutions has diminished.

### Conclusion

Arizona State University is not alone in raising the cost of tuition drastically in recent decades. However, the reasons behind tuition inflation at ASU and other public postsecondary educational institutions around the nation are not the same as those driving higher prices at private for-profit institutions. For the case of Arizona State University, advocating for greater state and local government funding while taking strides to reduce the costs of educational goods and services will be key to reducing the financial strain placed on students.

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