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Thinking beyond the Sticker Price

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FACULTY ESSAY

Thinking beyond the sticker price



Jeff Summers

Over the last 20 years, the average published sticker price for tuition and fees, and room and board at private, non-profit colleges like Linfield increased by 59 percent while U.S. per capita personal disposable income grew by 32 percent. Since the tuition sticker price rose by more than income, you might conclude that a private college education has become less affordable.

But that conclusion could be wrong. To gauge affordability, we must think beyond the sticker price by properly measuring the cost students actually pay and compare that to the benefits of a college education. In economic terms, a college education is more affordable the larger are its benefits relative to its cost.

Thanks to financial aid, a majority of students at private colleges pay less than the sticker price. Let's call the amount they do pay the average attendance cost. It is calculated as the sticker price minus the financial aid grants and tax benefits families receive to help them pay for college. Over the last two decades, the average attendance cost at private colleges rose by 29 percent. This increase in average attendance cost is a bit less than the 32 percent increase in income over that period, suggesting that a private college education may be more affordable today than it was 20 years ago. Remember though, to reach this conclusion we must compare the average attendance cost to the education's benefits.

A college education's benefits can be measured in both financial and non-financial terms. Financial benefits are usually measured as the difference between incomes earned by college graduates and those who do not have college degrees. Studies of this difference consistently show that on average college graduates earn much more over their lifetimes than people without college degrees. This suggests that the financial benefits of a college education are quite valuable.

Non-financial benefits of a college education accrue as students develop the critical thinking skills necessary to evaluate complex arguments and defend their thoughts.

These benefits are hard to measure. But there are distinctive, and noticeably expensive, characteristics of private colleges that help to produce them. They can include a residential com-

munity that fosters peer learning, productive student-faculty interaction, a curriculum centered on the liberal arts that offers a selection of majors focused on pre-professional preparation, and an active co-curricular environment that includes things like service learning activities, clubs and athletics.

Are private colleges affordable? Based on a comparison of the average attendance cost and the financial benefits, the answer to that question is likely to be yes. This conclusion is strengthened if students and parents also value a private education's non-financial benefits.

There are, however, at least two reasons to be concerned about private colleges' affordability. First, even though increases in the average attendance cost did not outpace the growth of income over the last two decades, the realized income gains have been unequally distributed. Some households have seen income rise faster than the average, but many have seen it rise by much less. This means that for an increasing number of households, a private college education has probably become less affordable. Combine this with decreases in the number of high school graduates and government policies that often discriminate against private higher education, and the result is that many private colleges are under great pressure to reduce their average attendance cost.

A second reason for concern about affordability is that purchasing a college education is increasingly viewed in vocational terms as a market transaction necessary only for gainful employment. As a result, the distinctive characteristics of private colleges that are so necessary to generate many of its non-financial benefits are often seen as frills. This view can make a private college education seem less affordable even at a lower average attendance cost.

The challenge for most private colleges, including Linfield, is to remain affordable by controlling the average attendance cost and finding innovative ways to provide financial and non-financial benefits that students value.

– Jeff Summers

Jeff Summers is a professor of economics and chair of the Department of Economics at Linfield College. His research focuses on the economics of higher education.

Notes on the data: Data for the sticker price and the average attendance cost referenced in this article are measured in constant dollars and drawn from The College Board, Trend in College Prices: 2017. Data for U.S. per capita income is also measured in constant dollars and drawn from Federal Reserve Economic Data (FRED) at fred.stlouisfed.org.