Rising college prices: Is federal policy partly to blame?
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Here is a guest post from Catharine Hill, a higher education economist and president of Vassar College.

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Faced with growing questions about how the public benefits from government support for higher education, President Obama in his new budget proposal suggests significant federal policy shifts to improve college affordability, access, and graduation rates. These are certainly key goals for our country, and I hope that Obama's ideas and those that others are recommending spark a debate that brings meaningful results. Right now, I think our nation needs a better understanding of what has guided our current federal and state higher ed policies, so we can be clearer about what to improve and how.

Our government supports higher education because policy makers believe that the private market will not adequately supply these services. Private market failure is a standard reason for government involvement in any sector. The rationale for such support of higher education includes societal benefits and issues of fairness and equity. Wide scale benefits from higher education can take many forms, from the effects of more informed citizens on our democracy to the creation of new knowledge that benefits everyone. And as with support for K-12 education — based on goals of equality and equal opportunity – we as a society believe that access to higher education shouldn't depend on a family's income or ability to finance a college education.

The government intervenes in other areas of the economy for similar reasons. For example, the tax code encourages home ownership through the deductibility of interest payments on mortgages, based on beliefs that home ownership stabilizes communities for all. Similarly, policy makers worry that research and development wouldn't occur at adequate levels without government support. Once the government decides to intervene in a particular sector through subsidies, regulations, or tax policies, firms in those sectors respond to the incentives created.

In higher education, government intervention has taken a variety of forms, from direct provision (public colleges and universities) to tax exemptions (for non-profit private institutions) and grants (such as Pell financial aid grants, or research support through agencies including the National Science Foundation, National Institutes of Health, National Endowment for the Humanities, and the National Endowment for the Arts.). The ultimate purpose of these government policies is to provide additional targeted resources to institutions of higher education, so the institutions can spend more on their primary mission of educating students.

For a variety of reasons over the last decade or so, higher education has come under increasing criticism from policy makers, as well as from students and their families. First, the price that students and their families have been asked to pay has gone up at relatively high rates, compared to both other goods and services and to family incomes. While this has not been true for all students and families — because there have been significant increases in financial aid offered by many institutions and by the Federal government through Pell grants — it is true nonetheless for many students. This has been the case because tuition, room and board prices at private nonprofit colleges have generally been increasing at high rates, and rate increases have been even higher at public colleges because state support has declined.

At the same time, the demand for higher education has increased, because students and families recognize its value. While it is often being examined and questioned, higher education's benefits continue to be proven to be significant. A simple example is the very large disparity in the current unemployment rates of people by education level.

The convergence of rising prices with increased demand has magnified people's sense of dissatisfaction, as families see something they desire move out of reach. Some policy makers express frustration because they perceive that the public resources allocated to higher education have not kept prices down or significantly improved access.

These criticisms are misguided or misdirected. Institutions of higher education are responding to the incentives offered by government. If policy makers do not like the outcomes, they should change the incentives created by their policies.

Some of the incentives that the government offers to institutions of higher education result in the same kind of unintended consequences created by subsidies for home ownership. For example, as the interest deduction on mortgages currently works, the larger the house one buys, the greater the resulting subsidy. So, while home ownership is the objective, the deduction has been structured in a way that encourages purchasing bigger houses, which most likely isn't the social benefit that the government is trying to generate.

In higher education, some of the government support that accrues to certain institutions is used to increase spending per student, improving the quality of the education that those students receive, but not necessarily increasing the number of students who receive that improved education. In some cases, government support even accrues to relatively high-income students who would have gone to college regardless of any subsidy.

This is an unfortunate outcome for people who support government assistance to higher education that helps increase access for students from low and moderate financial backgrounds. While current policies don't consistently encourage this outcome, government incentives could be structured to make it more likely.

Other supporters seek greater investment in individuals, and its value not just for those individuals but also for society more broadly. So part of the current criticism of higher education is really a debate about the purpose of government intervention – improved quality or improved access, which trade off against each other.

If policy makers and the public more generally believe that colleges and universities no longer appropriately use government support, new policies could create the incentives for change deemed appropriate or desirable.

The first step would be to decide what the market failures are that a policy is attempting to address, and then restructure incentives to bring about the desired responses. What might these policies look like? If high prices were a concern, the subsidies could be targeted to schools that maintain lower costs. If access were a concern, subsidies could be targeted to schools with higher shares of lower income students.

President Obama is proposing to Congress a number of reforms to do precisely these things. For example, he suggests tying a college's eligibility for several federal campus-based financial aid programs to keeping net tuition down and serving more low-income students. He is also proposing to reward states that adopt reforms focused on affordability and improved graduation rates.

These proposals recognize that changing the incentives for colleges and universities could be an effective way to encourage desired outcomes, in contrast to just criticizing decisions of these schools with which policy makers disagree.

Properly structured incentives can help policy makers accomplish their objectives for higher education, including greater access and affordability.Whether colleges and universities are in the public sector or the private non-profit sector, time has shown that they respond to incentives, accomplishing their missions as well as they can subject to the conditions they face.

Fonte: The Washington Post, Washington, 13 Mar. 2012, Internacional, On-line.

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