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ECONOMY | THE OUTLOOK

In Reversal, Colleges Rein In Tuition

Prices of higher education are rising in line with inflation as enrollment stagnates

State legislative mandates to reduce tuition were partly behind a decline two years ago in the average cost of attending the University of Washington in Seattle. PHOTO: BRUCE CHAMBERS/ZUMA PRESS

By Josh Mitchell

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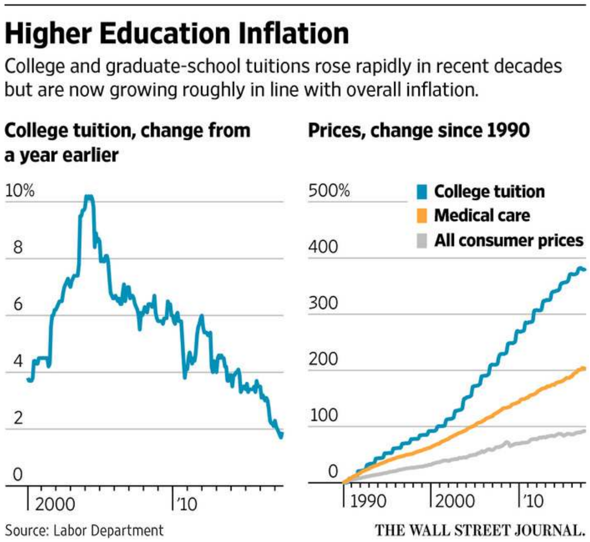
U.S. college tuition is growing at the slowest pace in decades, following a nearly 400% rise over the past three decades that fueled middle class anxieties and a surge in student debt.

Tuition at college and graduate school—after scholarships and grants are factored in—rose 1.9% in the year through June, broadly in line with overall inflation, Labor Department figures show. By contrast from 1990 through last year, tuition grew an average 6% a year, more than double the rate of inflation. In that time, the average annual cost for a four-year private college, including living expenses, rose 161% to about $27,500, according to the College Board.

Some schools are offering more discounts and cutting prices.

Abundant supply is running up against demand constraints. The number of two-year and four-year colleges increased 33% between 1990 and 2012 to 4,726, Education Department data show. But college enrollment is down more than 4% from a peak in 2010, partly because a healthy job market means fewer people are going back to school to learn new skills.

Longer-running economic and demographic shifts also are at play. Lower birthrates and the aging of baby boomer children have reduced the pool of traditional college-age Americans. The number of new high-school graduates grew 18% between 2000 and 2010 but only 2% in the first seven years of this decade, Education Department data show.



Another factor: Congress last increased the maximum amount undergraduates could borrow from the government in 2008. Some economists have concluded schools raise prices along with increases in federal financial aid. A clampdown on aid, in turn, could limit the ability of schools to charge more.

Some of these trends may persist. The number of high-school graduates is projected to remain flat through 2023, according to an analysis by the Western Interstate Commission for Higher Education. White graduates, the most likely among races to attend college, are expected to decline over this period.

"The competition is bigger now than it has been, and I think we have more informed consumers," said Sarah Kottich, chief financial officer at College of Saint Mary in Omaha, Neb.

The small private women's college cut out-of-pocket tuition 10% for the coming year, to an average $14,600 after aid, its first reduction in at least two decades. Officials made the move after analyzing research from SLM Corp.'s Sallie Mae, a private student lender, showing high prices are a major factor for students when they eliminate schools from their searches, Ms. Kottich said.

Moody's Investors Service projects shifting consumer behavior will restrain pricing for years. "We don't think we will return anytime soon to some of the double-digit increases we saw postrecession," Moody's analyst Susan Fitzgerald said.

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But other factors could keep cost pressures rising. George Pernsteiner, head of State Higher Education Executive Officers, a trade group that tracks state funding for schools, notes that many states are on track to experience budget crunches as the population ages and health-care and public pension costs rise. That could squeeze public support for schools.

Moreover, the number of schools is declining in response to oversupply, particularly among for-profit schools, a trend that could reduce competition and increase pricing leverage for schools that remain open.

For now, the shakeout is hitting private schools hardest. For-profit trade schools and many private nonprofit colleges are under pressure to justify high prices, particularly because some graduates are failing to land high-paying jobs. The broad decline in undergraduate enrollment since 2010 has been concentrated mostly among small nonprofit colleges, for-profit trade schools and public community colleges, federal data show.

Public four-year colleges, which teach the majority of bachelor's candidates in the nation and tend to be cheaper than private schools, are benefiting from increases in direct state funding as tax revenues improve. That has eased schools' need to raise prices on students. During the recession, the reverse occurred. States cut funding to plug budget gaps and colleges raised tuition to offset the cuts.

State officials have also pressured schools, through legislation and public speeches, to rein in prices, and they are admitting more international students to boost revenues.

The average cost of attending the University of Washington in Seattle fell two years ago, in part due to state legislative mandates to ease tuition. Average tuition and living expenses stood at $10,100, after scholarships and grants, in 2015, down 3% from two years earlier. A school spokeswoman said one factor was that more students were living at home to avoid room-and-board payments.

College remains a daunting expense for many households. Moreover, because tuition levels were high to begin with, even small percentage increases can translate into large dollar amounts. Most undergraduates take on student loans, and graduate owing an average $30,000, according to the nonprofit advocacy group the Institute for College Access & Success.

The sharp rise in tuition and student debt in the past generation stoked concerns that college became out of reach for many families. A Federal Reserve survey released in May showed 37% of Americans age 30 and younger who hadn't attended college said it was it because it was too expensive. About 43% of those who attended but dropped out pointed to the cost.

Two-thirds of private colleges that experienced enrollment declines over the past three years pointed to price sensitivity among prospective students as an important factor, according to the National Association of College and University Business Officers. The group said discounting, or the practice of schools offering scholarships and other forms of aid to reduce tuition, reached a record this year.

Izzi Moraschi, 19 years old, said she chose Rosemont College, a small private college near Philadelphia, after seeing a flier advertising a sharp tuition reduction. She wanted to reduce the burden on her parents.

Combined, she and her parents took out $15,800 in federal loans to cover her first year's tuition. "It was just really important for me that I was able to make it so that my parents wouldn't have to pay anything out of pocket," said Ms. Moraschi, now a sophomore, who said she plans to pay back her parents' portion of the loan.

Sharon Hirsh, Rosemont's president, said her school reduced tuition to ease concerns of middle-income students, who seem more willing to choose public schools to save money.

“We are surrounded by private institutions that are openly talking about right-sizing,” Ms. Hirsh said. “Families have gotten to a point where they cannot consider a private institution with a high price.”

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