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# HANDBOOK ON AFFORDABILITY

# 10. Higher Education

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The price of attending college has increased dramatically over the decades. The most direct cost, published undergraduate tuition and required fees, averaged around \$5,200 per year in 1970 and declined slightly by 1980. But costs then steadily rose, to just under \$6,800 by 1990, \$9,200 by 2000, \$13,000 by 2010, and around \$15,600 by 2020 (all figures in inflation-adjusted dollars). Adding other costs such as room and board, and subtracting grant and scholarship aid, indicates that the average net total cost of attending college is now \$22,500 per year.

Policies intended to make college more affordable have failed spectacularly. The federal government’s biggest tools—student loans and tax credits—can theoretically improve affordability. In practice, however, they’ve fueled rising prices by giving colleges more room to harvest aid for their own purposes.

When the HOPE tax credit was introduced in 1998, some colleges responded by raising prices while others cut students’ institutional aid “roughly dollar-for-dollar.” The same thing happened with Grad PLUS loans, launched in 2006: Graduate program prices “increased by \$0.75 per \$1 increase in average per-student Grad PLUS loans.” Even accounting for colleges recycling some of that captured revenue into institutional aid, net prices increased by \$0.64 per new \$1 in lending. Colleges rather than students thus benefited from most of the funding.

State funding of public colleges tells a similar story. Lawmakers assume that if states increase their funding, colleges will reduce their tuition prices. But four decades of data from 1980 to 2024 show there is no relationship between changes in state funding and changes in tuition, meaning that there’s no reliable way to “buy” lower tuition by increasing state funding.

Worse, higher education subsidies, by encouraging many more students to attend college, drive credential inflation—students needing higher degrees to obtain positions in the workforce that previously didn’t require them. This makes life less affordable by burdening many graduates with unnecessary costs and debts for a given career.

Ultimately, reducing subsidies and curbing this overconsumption is desirable policy. The One Big Beautiful Bill Act took some welcome steps in that direction, ending the highly inflationary Grad PLUS program and limiting other federal student loans. But because rolling back aid can raise short-term costs for students, our near-term focus here is instead on supply-side reforms that would boost competition and affordability without dumping yet more money into a broken system.

## FEDERAL POLICIES TO IMPROVE HIGHER EDUCATION AFFORDABILITY

- **Reform accreditation to reduce entry barriers.**

For their students to be eligible for federal financial aid programs like Pell grants or student loans, a college must be approved by an accreditor. Accreditors are essentially peer-review groups of colleges. In other words, the government requires new colleges to seek the approval of their would-be competitors—an obvious conflict of interest and one that functions as an unnecessary barrier to entry for new colleges. Accreditors also tend to demand costly and increasingly outmoded things, such as libraries teeming with physical books. Reforming accreditation to allow for outcome-based approval for new providers, faster recognition for new

accreditors, and narrower, risk-based oversight rather than one-size-fits-all gatekeeping would open pathways for new types of education to enter the market. This would in turn pull prices down and potentially increase less expensive education options beyond traditional multiyear degrees.

- **Abolish subsidies for low-performing colleges.** One of the most valuable functions of profits and losses is determining which operations should continue and which should go out of business. But both the federal and state governments routinely keep low-performing colleges alive with indiscriminate subsidies. This needs to stop. The ideal solution is to end all subsidies, but absent that, at the federal level, accountability metrics based on learning or labor-market outcomes should be used to restrict participation in federal aid programs like Pell grants and student loans. Legislation in 2025 took a good step in this direction, establishing an earnings floor to cut off programs whose graduates earn too little, but there is still lots of low-hanging fruit, such as accountability metrics that account for student loan debt. At the state level, similar accountability metrics should be used to shutter underperforming public-college programs. These zombie programs and colleges absorb funding, freeze talent in low-productivity employment, and contribute to credential inflation. Allowing these programs and colleges to die would allow the market to reallocate funding and talent to more productive and innovative programs and colleges.

## STATE AND LOCAL POLICIES TO IMPROVE HIGHER EDUCATION AFFORDABILITY

- **Eliminate legislatively imposed monopolies and cartels.** Many states have laws that restrict competition. For example, as of early 2025, Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, South Carolina, and Texas had laws or regulations that mandated use of a single accreditor for at least some types of institutions. States with these mandates should rewrite their laws and regulations to allow colleges to choose from among all authorized accreditors.
- **Shift state support to students rather than colleges.** There are many advantages to funding students in the form of financial aid instead of colleges in the form of direct subsidies. Student-based funding allows for a closer alignment between the justification of the funding and the funding itself; allows for targeted funding (e.g., providing additional funding for low-income students); is less prone to political interference and infighting; encourages a healthier competition among colleges (for students rather than political favor); suffers from fewer public relations problems (e.g., a college building an overpriced sports stadium); empowers students; and encourages more cost control. It is already the case that most federal funding is provided to students, but most state funding is provided directly to colleges. Thus, states could marginally increase the effectiveness of their funding by shifting from direct funding (sometimes called state appropriations) to financial aid funding.