



The Center for  
College  
Affordability &  
Productivity

**For More Information:**

Andrew Gillen

Tel: 202-375-7832

Email: [agillen@centerforcollegeaffordability.org](mailto:agillen@centerforcollegeaffordability.org)

**PRESS RELEASE**

**EMBARGOED UNTIL 12:01 AM, WEDNESDAY MARCH 16, 2011**

**New Study to be Released:**

***How College Pricing Undermines Financial Aid***

Washington, DC –The Center for College Affordability and Productivity is pleased to announce the release of *How College Pricing Undermines Financial Aid*, by Robert E. Martin and Andrew Gillen. Analyzing college pricing decisions, this study explains how college pricing renders most financial aid programs ineffective as a tool for increasing college affordability.

Despite vast increases in financial aid over the years, the cost of attending college has continued to soar. The main finding is that colleges often deliberately raise their prices when aid is available, in essence “capturing” the aid. The end result is that higher financial aid does not produce an improvement in college affordability. Other conclusions include the following:

- Growth in colleges’ costs and associated spending is the main obstacle for improving college affordability.
- While external factors do contribute to the increase in costs for colleges, it is the decisions of colleges themselves that are the main driver of higher costs, particularly the desire to increase prestige.

To demonstrate the negative impact of this dysfunctional financial aid system, the study considers the hypothetical benefit to students if all aid was used to lower the financial burden for students rather than being captured by colleges. Under such a scenario:

- The net price at public four year institutions would be only 13% of median income, rather than the 20% we actually observe (see tables 1 and 2), a dramatic improvement in affordability.
- Higher education as a whole would spend \$59 billion less per year.

The extra \$59 billion that colleges are spending as a result of capturing financial aid and other income is mostly used to finance reductions in faculty and staff productivity in the form of low teaching loads and bloated administrative staffs. The authors conclude that, in effect, “[h]igher education is engaged in an expenditure ‘arms race’ that thwarts policies to increase public access and redistributes wealth to higher education insiders.”

An embargoed (until 12:01 AM, March 16, 2011) copy of the study is available for download at: [http://centerforcollegeaffordability.org/uploads/How\\_College\\_Pricing\\_Undermines.pdf](http://centerforcollegeaffordability.org/uploads/How_College_Pricing_Undermines.pdf).

*The Center for College Affordability and Productivity is an independent, non-profit higher education research center based in Washington, D.C.*

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