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POINT OF VIEW

The High Cost of College: an Increasingly Hard Sell

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Last spring's television season of *The Apprentice* featured a competition between the "Net Worth" and "Magna" teams (alias "Street Smarts" and "Book Smarts"). It was a battle between people who spent their early 20s outside of college — and who have profited nicely from that decision — and academic achievers who spent that same time in college. Even though a college graduate ultimately won, throughout the program the Street Smarts more than held their own.

If Donald Trump had intended to tweak colleges, he made his point — and raised the question of whether the high cost of traditional higher education is worth the money. The answer that you often hear, that it nearly always is worth the money, may soon come under fire from a new generation of students and their parents.

Getting their diplomas has paid off financially in the past for most graduates, but how long will it continue to do so? Since the early 1980s, tuition and fees at private and public colleges have grown faster than inflation each year — often more than two or three times as fast. To obtain a four-year private-college diploma, a typical family sending off a freshman this fall is looking at a price tag close to $120,000, not counting books, transportation, and other expenses.

Meanwhile, the amounts that today's students are borrowing are clearly rising. According to a report by the American Council on Education, the number of student loans made annually has more than doubled since 1993. As of 2004, 70 percent of private-college students receiving B.A.'s had taken out student loans, with a median amount of $17,125. Just over 80 percent of all students receiving professional degrees at private institutions (in fields such as law, medicine, and dentistry) had student loans, with a median amount of $71,317. Many have debts way above those medians, of course, and the report confirmed that students from the lowest-income families are borrowing the most.

Yet even those numbers fall short because they don't account for off-the-books borrowing. Banks extended $11-billion in loans to students in 2004. Many families are also taking out home-equity loans to pay college expenses, tethering future income to the vagaries of the housing market.

Many of today's recent graduates begin work life with total debt-repayment obligations that leave them with monthly interest burdens higher than what banks consider responsible. Young people who start out with such burdens, especially from low-income families, may have trouble establishing households, buying homes, and reaching the earnings they expect.

The common assumption is that a college education "always pays," but that assumption is based on *retrospective* data from the late 90s and earlier on the relative earnings of adults now in their mid-20s, 30s, and 40s. According to census data, when adjusted for inflation, the median earnings of workers age 25 and older with only a bachelor's degree have fallen for four straight years. Today's heavily indebted college graduate does not necessarily have an edge over someone of the same age who spent those same four years building a résumé, gaining experience, establishing connections, and earning and saving money. Imagine what would happen to colleges if word starts to spread, over the next 5 to 10 years, that many of those who chose to forgo higher education are more successful at age 30measured by incomes, homes, savings — than their better-educated but heavily indebted peers.

We have long studied the patterns of different generations and see two significant factors at work today as well. The first is the arrival of a "Millennial generation" of college students, those born in 1982 and after. They are quite ambitious, on the whole, and more focused on the long-term future than students were a decade or two ago. According to a survey by Teenage Research Unlimited, three-quarters of today's teenagers plan to attend college for the purpose of helping them launch careers, while less than one-quarter seek what has mattered most to many of their parents: college as an escape and a meaningful experience.

As long as a college degree remains a necessary credential for a career, demand will remain strong. But if that perception starts weakening — if Millennials perceive professors as being so stuck in the last century on matters of ideology, attitude, and technology that they can no longer teach the knowledge and skills necessary for financial success — then colleges should watch out. Many will see their admissions pools shrink, their acceptance yields decline, and their dropout rates rise — perhaps sharply.

The second, and more decisive, generational change involves parents. In recent years administrators have had to deal with pushier-than-ever parents, who demand to know how a college will help their 22-year-old "child" land that prestigious, highly paid position at the end of the long K-16 path in which those moms and dads have invested so much love, time, energy, and money. The good news for colleges is that most of those parents have a deep faith in the value of a college education. Many are boomers who attended college during the late 1960s and early 70s. Despite — or maybe because of — those tumultuous times, people who went to college back then retain a positive attitude toward the traditional college experience, which they have yearned to relive through their children. The result has been a relative lack of attention to questions of cost and value. As increases in tuition have outpaced inflation year after year, boomer parents have offered little objection.

That all may change very soon. Over the next few years, more parents accompanying high-school seniors on campus tours will be Gen Xers, born in 1961 and after. By 2015 they will be the overwhelming majority of campus parents.

That first batch of Gen-X moms and dads will be those who attended college in the 80s and early 90s. Between the late 60s and then, the annual survey by the University of California at Los Angeles of college freshmen showed a steep decline — from nearly 80 percent to about 40 percent — in the proportion who felt that "developing a meaningful philosophy of life" was an important goal of college, and a steep rise, almost exactly in reverse of those numbers, in the proportion who felt that "being very well off financially" was an important goal. Gen Xers also were told by one academic report after another how poorly educated they were as a generation, what a "rising tide of mediocrity" they and their schools represented.

Married Gen Xers with children are among America's most conservative voting blocs. They are fiercely protective of their children, in school and elsewhere. On their own and through PTA's, they are doing all they can to make sure that schools don't fail their own sons and daughters the way (they were told) their schools had failed them. Hence, at the grass roots, Gen Xers have propelled school choice, vouchers, charter schools, home schooling, and the standards-and-accountability movement.

And now they are coming, with their children, to college.

When we have raised the issue, we have found that, far more than boomers, Gen Xers are likely to recall college in hindsight as a waste of time and money. Their recollection of their own college years has morphed into a profound skepticism bordering on cynicism, a demand for standards and accountability, and a keen interest in the bottom line. Considering what they have done as school parents, it's not hard to predict how they will behave as college parents. This get-real generation will focus on standards, transparency, measurable results, accountability, and (especially) cost. They will ask, perhaps very pointedly, whether courses and the professors who teach them are worth the money. After carefully checking out the college dorms, food, gyms, and career-counseling services, they will ask about "ROI" (return on investment). Some will wonder whether class discussions focusing on issues of the 60s and 70s, still so intriguing to many boomer professors, teach anything their kids need in the workplace.

Many will ask why, in recent decades, whatever the economic climate, higher education has relentlessly risen in cost relative to inflation. At colleges with large endowments, many will ask why, especially in those years that endowments have grown significantly, keeping tuition low hasn't been given a high priority in the use of endowment funds. Many will ask whether student loans are, in fact, "financial aid" or rather just an inducement to enroll — much as car loans are not "car aid" but a mere inducement to buy a car.

If you are a boomer administrator, you might want to assemble a meeting of staff members in their late 30s or early 40s who have kids in middle or high school. Ask them those questions, and you might be startled by the answers. When we speak at colleges, we find that such questions resonate with Gen-X administrative-staff members, who readily acknowledge that they and their peers will be a hard sell when their own kids are ready for campus tours.

Perhaps those Gen-X staff members can help you find ways to prove to Millennial students and Gen-X parents that your educational product is worth the money. Perhaps they can help you provide measurable standards comparable to what Gen-X parents expect from their public schools. That might include solid data on what recent graduates do, what they earn, how large their loans have been, and how quickly they pay the loans off. They might help you update your marketing strategies. That might include new ways to convince students and parents of the importance of learning what your college teaches and about the quality of the experience — and student body — you offer.

Finally, and most important, you should do whatever it takes to hold the line on tuition. Today's colleges are walking a tightrope on tuition, and the rope is getting thinner every year. The longstanding assumption about the collegiate earnings premium is due for a high-stakes reassessment in this new era of high tuition, high debt, and parents with a keen eye on the bottom line.

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