Statement

of

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before the

House Committee on Education and Workforce, Subcommittee on Higher Education and Workforce Development

September 16, 2025

RE: “No More Surprises: Reforming College Pricing for Students and Families”

Chairman Owens, Ranking Member Wilson, and esteemed members of the committee, thank you for giving me the opportunity to testify on these important matters.

Today's topic on price transparency in higher education is an excellent one, as higher education tends to have both high and uncertain pricing, a particularly brutal combination for students and parents. One promising policy that could help address these problems is price transparency.

There has been momentum around three price transparency initiatives in higher education. The first concerns confusing financial aid terminology. Even aid that is financed entirely by the federal government goes by a bewildering array of confusing names. For example, a 2018 study by a team of researchers at New America found that the most common type of federal loan went by 136 different names in financial aid award letters sent by colleges, "including 24 that did not include the word 'loan.'"[1] Eliminating this unnecessary source of confusion is probably the best example of low-hanging fruit in higher education policy right now.

The second price transparency initiative with momentum is ensuring that students and parents have an accurate sense of what they will really pay for college, the net price, which is the published price minus any grant aid that does not need to be paid back. While Congress has required every college to post a net price calculator for years now, this has not had the desired effect, in part because the calculations use different formulas and are typically not comparable across colleges. Remedying this problem by supplementing each college's calculations with one using a universal formula would allow for comparisons across colleges.

The third and most recent price transparency initiative seek to provide more certainty about price over the course of several years. These typically take the form a price guarantee that locks in (maximum) prices for a predetermined number of years. This ensures that students and parents will know how much they'll need to pay over the course of their studies. Some states like Ohio and North Carolina have already passed legislation that mandates this type of price transparency. For example,

- Ohio State University's guaranteed price covers tuition and fees for four years.[2]
- Ohio University's guarantee covers tuition and fees, meal plans, and residence halls for four years.[3]
- The University of Cincinnati's guarantee locks in all costs for up to four or five years depending on the length of the program.[4]
- The University of North Carolina system fixes tuition for four years for new students.[5]

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[1] Stephen Burd, Rachel Fishman, Laura Keane, Julie Habbert, Ben Barrett, Kim Dancy, Sophie Nguyen, and Brendan Williams, "Decoding the Cost of College," New America, 2018. https://www.newamerica.org/education-policy/policy-papers/decoding-cost-college/

[2] The Ohio State University, University Registrar. https://registrar.osu.edu/student-hub/tuition-and-fees/ohio-state-tuition-guarantee/

[3] Ohio University, Office of the Bursar. https://www.ohio.edu/bursar/ohio-guarantee

[4] University of Cincinnati, Office of the Bursar. https://www.uc.edu/about/bursar/tuition-fees.html

[5] The University of North Carolina System, Fixed Tuition Program. https://www.northcarolina.edu/impact/affordability-efficiency/fixed-tuition-program/

Unfortunately, there isn't much analysis of the impacts of these programs yet, but they do serve as a proof of concept and provide a baseline from which to consider changes.

The Pros and Cons of Price Transparency

The reasons to support price transparency generally fall into three buckets: economic, moral, and quality of life.

There are many economic arguments for price transparency. The first cluster of arguments focuses on market efficiency. Economists generally believe that more information increases market efficiency. For example, the competitive market framework generally assumes that there is full information, meaning that both buyers and sellers know all the information they need to make the best decisions. As we move further from this due to things like information asymmetries, market outcomes deviate from the ideal. For example, Akerloff's famous market for lemons paper[6] showed that uncertainty about used car quality can impair mutually beneficial market exchanges as buyers assume that used cars are lemons, which suppresses prices which in turn suppress the supply of high-quality used cars. The end result is market inefficiency – mutually beneficial transactions that don't occur due to the information asymmetry. While the used car market suffered from uncertain quality, similar problems could arise with uncertain prices, and price transparency can reduce these informational distortions and increase market efficiency.

Price transparency would also lead to more informed decision making. For example, a 2022 Government Accountability Office study found that fewer than half of colleges inform students of the total costs of attendance.[7] Too many mistakes are made due to this lack of information, such as some students avoiding college because they think it costs more than it does, as well as some students attending college because they think it is more affordable than it is. Transparent prices would help reduce this problem of basically forcing students to choose whether to go to college without knowing the costs of that decision.[8]

Another set of economic arguments focuses on transactions costs. In the college context, these costs are mainly search costs, which refer to the costs in time and effort to find and compare information on different college options. These costs can be substantial, especially for first generation college students whose families don't have much experience with higher education and don't necessarily know what information they need or where to find it. By ensuring prices are transparent and more comparable, price transparency would reduce these costs.

Changes in the competitive pressure that colleges face provide another set of economic arguments in support of price transparency. For higher education, price transparency will typically encourage two beneficial changes. First, one of the reasons college costs increased so much over the years was because prices were so opaque. But as I testified a couple of years ago, "Increased price

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[6] George A. Akerlof, "The Market for "Lemons": Quality Uncertainty and the Market Mechanism," The Quarterly Journal of Economics, Vol. 84, No. 3 (Aug., 1970). https://www.jstor.org/stable/1879431
[7] U.S. Government Accountability Office, "Financial Aid Offers: Action Needed to Improve Information on College Costs and Student Aid," December 5, 2022. https://www.gao.gov/products/gao-23-104708
[8] Andrew Gillen, "Choosing a College Blindfolded," Minding the Campus, June 15, 2023. https://www.mindingthecampus.org/2023/06/15/choosing-a-college-blindfolded/

transparency would increase student and parent awareness of how much they have to pay, and their increased resistance to paying high prices would put pressure on colleges to reduce prices."[9] A second desirable benefit would be a reduction in price discrimination. Colleges collect very detailed information on student and parent ability to pay, and often offer highly personalized financial aid packages, which enable widespread and fine-grained price discrimination, which describes when people pay different prices for similar products or services. Price transparency could help encourage colleges to compete based on these highly visible prices rather than the current practice of relying on near universal scholarships to lure students to campus and altering subsequent financial aid to price discriminate. Some colleges even engage in scholarship displacement, which is when a college reduces a student's discounts or scholarships when the student receives an outside scholarship.

The main moral argument in support of price transparency concerns surprise bills. Surprise bills have received considerable attention in the health care context and for good reason. It shocks the conscience to receive unexpected, and often astronomical bills. Abuse was common, such as out-of-network doctors at an in-network hospital. For higher education, surprise bills take a number of forms. One example would be large annual increases in tuition. For example, if costs increase 6% a year, a student would be paying 19% more in their fourth year of college than they did in their first. If it takes them six years to graduate, they would be paying 34% more. Another surprise bill in higher education takes the form of disappearing or front-loaded scholarships that are available for first year students to entice them to enroll, but then are not renewed in the following years. These bait and switch practices can substantially increase the cost of attending college for many students. Price transparency could all but eliminate surprise college bills.

The quality-of-life arguments for increased price transparency note that more predictable prices make it easier and less stressful for students and their families to make plans for financing college attendance.

But more price transparency also has some drawbacks and potential drawbacks.

The first potential drawback that some worry about with mandated price transparency is that it could start us down a slippery slope to price controls. Price controls are a terrible idea in general and would be for higher education as well. But it would be the price controls, not the price transparency that are the problem. Pairing price transparency with policies that forbid price controls can address this concern.

Another common concern with price transparency is that under certain conditions, it can lead to implicit price collusion among producers. I'll discuss this more shortly in the context of the market for cement.

The last common objection to price transparency in the form of guaranteed tuition for a set period of time is that it limits the flexibility of colleges to respond to financial shocks. For example, an unexpected burst of inflation, or a decline in state funding for higher education would be harder for colleges to deal with if they've already locked in prices for many of their students. This is a valid

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[9] Andrew Gillen, "Statement Before the House Committee on Education and Workforce On Lowering Costs and Increasing Value for Students, Institutions, and Taxpayers," Texas Public Policy Foundation, July 27, 2023. https://democrats-edworkforce.house.gov/imo/media/doc/gillen_testimony.pdf

concern, but it should be noted that giving colleges more flexibility will often just mean that they transfer the burden of dealing with such shocks to students and parents, who are even less prepared to handle it than colleges.

What Can We Learn about Price Transparency in Other Industries?

There have been several studies of the effects of price transparency in other industries, notably health care and cement. Unfortunately, we probably can't learn much from these experiences.

In health care, increased transparency has resulted in mixed effects in terms of price changes. As Jinyang Chen and Marisa Miraldo note in a literature review, more transparency leads to lower prices for some services like laboratory and imaging tests, but higher prices for other services "in higher-ranked or rated facilities, which was referred to as the reputation premium."[10]

The reputation premium result might replicate in higher education, but it is not guaranteed. After all, top colleges already know (or have a very educated guess as to) what their peers charge, it's the students that are in dark.

The level of aggregation in health care and education are also very different. Hospital billing is notorious for having extremely fine grained and confusing charges for a huge variety of services, whereas in higher education, there are just a handful of key numbers (total cost of attendance, tuition and fees, and room and board) and they tend to be bundled together. Thus, to the extent complexity and subsequent consumer confusion reduced the impact of price transparency in healthcare, we shouldn't expect the same result in the less complex higher education market.

Education is also different from health care in that for health care, consumers often have no idea what procedures or tests they need, which makes it nearly impossible to shop around for many health care needs. It is notable that the one area where transparent prices lead to lower prices was for standardized non-time sensitive services like laboratory tests and imaging. Higher education is much more similar to laboratory tests and imaging than it is to an emergency room trip in that the main services are known about beforehand.

Transparency efforts in healthcare also suffer from a lack of compliance, with many hospitals refusing to publish their price lists. This problem could be easily avoided in higher education by tying compliance to participation in Title IV aid programs like Pell grants and student loans.

In the cement industry, there is evidence that price transparency enabled implicit collusion among producers. For example, when the government in Denmark required publicly posted prices for cement, prices increased by 15-20 percent because "publication of prices allowed firms to reduce

[10] Jinyang Chen and Marisa Miraldo "The impact of hospital price and quality transparency tools on healthcare spending: a systematic review," Health Economics Review, 2022.
https://healtheconomicsreview.biomedcentral.com/articles/10.1186/s13561-022-00409-4

the intensity of oligopoly price competition."[11] In other words, producers used their required price disclosures to implicitly collude to increase prices.

But a similar result is unlikely for higher education for two reasons. First, ironically, cement has a short shelf-life, and must therefore be produced close to the ultimate users. In contrast, college is often a national market, which makes collusion more difficult. Second, when we have seen collusion in higher education, it tends to be among high quality institutions. For example, the Overlap group operated a type of collusion for decades last century, an arrangement that was finally undone by a Department of Justice antitrust suit in the 1990s.[12] Today, the 568 group, another group suspected of collusion, is being actively litigated.[13] Thus, in the unlikely event that increased price transparency does increase collusion, there is strong reason to believe such collusion will be detected and remedied by the courts.

Complications for Higher Education

Higher education does have several complicating factors to consider when designing price transparency measures. For starters, should transparency apply to tuition and fees, or to the total cost of attendance, which includes, room and board and other common costs of enrollment as well.

In addition, should transparency focus on published prices (often called sticker prices) or on the net prices that reflect what students and families really pay after accounting for grant aid. Net prices are more useful, but published prices are easier to implement and interpret. Even more problematic is that published prices may work well for some types of colleges that don't give much institutional aid (such as public colleges) but would not work well at all for other types of colleges that give lots of institutional aid (many non-profit colleges).

Another set of questions concerns how long the price guarantee would last for. There are several focal points, such as two years for associate degrees, or four years for bachelor's, or perhaps each program's median time to degree for recent cohorts. But regardless of what length is chosen, the reality is that many students will not be covered for the entirety of their education.

Recommendations

The main conclusion is that the benefits of price transparency are almost certain to outweigh their costs. New legislation to increase price transparency is appropriate and should:

- Standardize financial aid terminology.

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[11] Svend Albaek, Peter Mollgaard, and Per B. Overgaard, "Government-Assisted Oligopoly Coordination? A Concrete Case," The Journal of Industrial Economics, 1997. https://sites.duke.edu/collardwexler/files/2015/01/danish_concrete_cartel.pdf

[12] Caroline M. Hoxby, "Benevolent Colluders? The Effects of Antitrust Action on College Financial Aid and Tuition," NBER Working Paper 7754, June 2000. https://www.nber.org/papers/w7754

[13] Peter Coy, "How Much Deference Do Elite U.S. Colleges Deserve?," New York Times, Jan. 14, 2022. https://www.nytimes.com/2022/01/14/opinion/colleges-antitrust-law.html

- Supplement existing net price calculators with a universal one that facilitates comparisons across colleges.
- Require a price guarantee for the typical length of a program.
- Make price transparency a condition of participation in Title IV programs like Pell grants and student loans to ensure compliance.
- Forbid price controls through departmental regulation that seeks to set or influence the prices colleges charge.
- Consider applying the price guarantee only for states that don't implement their own version. Given that there are key open questions (e.g., tuition or total costs?, published prices or net prices?, how long should a guarantee last?), we might benefit from different states experimenting with different versions of price transparency. However, if states implement their own versions of price transparency, require standardized terminology and formats to ensure that information is machine readable and comparable across states.

Thank you again for the opportunity to provide this testimony and I look forward to answering any questions you may have.

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