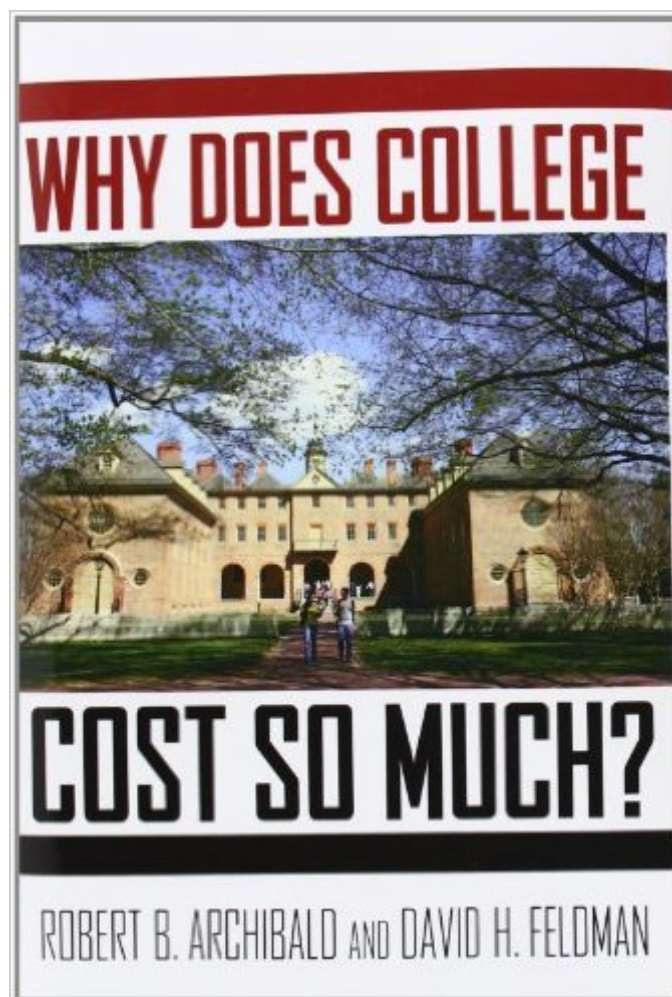


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# Why Does College Cost So Much?



## Synopsis

Much of what is written about colleges and universities ties rapidly rising tuition to dysfunctional behavior in the academy. Common targets of dysfunction include prestige games among universities, gold plated amenities, and bloated administration. This book offers a different view. To explain rising college cost, the authors place the higher education industry firmly within the larger economic history of the United States. The trajectory of college cost is similar to cost behavior in many other industries, and this is no coincidence. Higher education is a personal service that relies on highly educated labor. A technological trio of broad economic forces has come together in the last thirty years to cause higher education costs, and costs in many other industries, to rise much more rapidly than the inflation rate. The main culprit is economic growth itself. This finding does not mean that all is well in American higher education. A college education has become less reachable to a broad swathe of the American public at the same time that the market demand for highly educated people has soared. This affordability problem has deep roots. The authors explore how cost pressure, the changing wage structure of the US economy, and the complexity of financial aid policy combine to reduce access to higher education below what we need in the 21st century labor market. This book is a call to calm the rhetoric of blame and to instead find policies that will increase access to higher education while preserving the quality of our colleges and universities.

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## Customer Reviews

In the plethora of books about the "crisis" in higher education, Archibald and Feldman's book serves

as a welcome relief from the sensationalism and reliance on anecdotal evidence that permeates the literature. As a college professor myself, with two children poised to enter college in a couple of years, I have read most of the recent volumes published on the sorry state of higher education (e.g., "Higher Education?", "The Five Year Party," "Real Education," among others). While many of these books make for entertaining reading in their descriptions of students who don't study, professors who don't teach, and administrators who line their pockets with exorbitant salaries, what has been missing for a long time in the higher education debate is a reasoned analysis based on empirical data. "Why does college cost so much?" provides exactly that reasoned analysis. I won't repeat the details of their argument here, but essentially Archibald and Feldman present a compelling argument that--contrary to public opinion--college costs have not escalated wildly out of control but rather track closely the increases in prices for services offered by highly skilled providers, an increase that is inextricably linked to the gains in labor productivity in other domains (a phenomenon termed "cost disease"). Much of the book is devoted to making that argument a heck of a lot clearer than I just did in that one-sentence summary, as well as offering ample empirical data to back their argument up.

It is readily apparent that college costs have been rising rapidly in recent years. There is a conventional wisdom, or perhaps a political one, that places the blame on the colleges and universities themselves. It argues that, in a quest for better rankings and prestige, these schools have sought extravagantly gilded institutions. The argument goes on to criticize them as inefficiently run, and seeking ever more funds to create increasingly comfortable security for faculty and administrators. The authors, two professors of economics at William and Mary, a public university, have sought to dispel this perception. To do so, they take what they describe as an "aerial view" of colleges and universities, as opposed to the close up view taken by critics. I understand this to mean that others have closely examined the revenues and expenditures of individual universities, while these authors have sought to see how higher education fits into similar service industries in the overall economy. In making their analysis they speak of colleges' "costs" - the amount needed by the institution for its operations; and "prices" - the "list price" for attendance. They do consider room and board in total costs, but really don't feel that such increases have been too significant, and that tuition and fees are the drivers of higher costs, and also of higher prices. The authors argue that during the first 75 years of the 20th Century the educational system met demand for highly skilled workers. However, since that time rapid technological advances have created a demand for highly educated workers that has outstripped

supply. When demand is not met, then the costs for such workers increase, both in manufacturing and service industries.

This is a lucid and measured attempt to put the 'cost of college attendance' in an appropriate context. Eschewing the apocalyptic outcries from other commentators (including those in the popular press) they argue that the 'unaffordability crisis' has been much exaggerated. In fact, college costs should not be seen in the context of, e.g., durable goods (whose prices have indeed diminished) but rather in the context of the products of service industries (lawyers, dentists) which require highly-educated practitioners. Seen in that light, college costs track very nicely with other service industry costs and should not be causes of alarm. The authors also deflate some of the popular outcries by pointing to the realities of actual pricing. Very few people pay the top-dollar charges of elite institutions and they can generally afford to do so without significant pain. Top institutions have deep financial-aid coffers and tuitions are discounted significantly. While the COFHE schools discourage merit-based support, e.g., their need-based support is generous; at the very top schools the support is largely (or even exclusively) in the form of grants rather than loans. Many distinguished private institutions and public institutions, generally, often offer merit-based support as well. Universities should not be thought of as Bentley dealerships, with prices beyond the means of all but the most wealthy consumers. On the contrary, they are much more like airplanes in which every passenger is paying a different price, in some cases a very modest price. Moreover, much more attention should be paid to cost, not price. The actual cost of education is generally far higher than even the top rack-rate tuition.

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