WHY DOES COLLEGE COST SO MUCH?

ROBERT B. ARCHIBALD AND DAVID H. FELDMAN
1. Tuition Consistently Rises Faster than the Inflation Rate

2. This is BAD

3. Colleges and Universities Must Be Doing Something Wrong.

4. I’ll Tell You What it is.
1. Tuition Consistently Rises Faster than the Inflation Rate

2. Is this Unusual?

3. What Explains it?
Number of Years with a Percentage Price Increase Exceeding the Inflation Rate, 1947-2010
Number of Years with a Percentage Price Increase Exceeding the Inflation Rate, 1947 to 2010
Figure B. Index of Real Higher Education Costs (1970=1), 1948-2008
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## Pattern Common

### Rate of Real Price Growth

<table>
<thead>
<tr>
<th>Decade</th>
<th>Dentists</th>
<th>Lawyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960s</td>
<td>1.26</td>
<td>2.15</td>
</tr>
<tr>
<td>1970s</td>
<td>0.23</td>
<td>1.37</td>
</tr>
<tr>
<td>1980s</td>
<td>2.41</td>
<td>4.01</td>
</tr>
<tr>
<td>1990s</td>
<td>2.82</td>
<td>2.11</td>
</tr>
<tr>
<td>2000-08</td>
<td>2.21</td>
<td>1.98</td>
</tr>
</tbody>
</table>
What any explanation of rising college cost should be able to explain

1. Why cost generally has risen faster than the inflation rate.
2. Why cost increases have accelerated since the early 1980s.
3. The “flat portion” during the 1970s.
4. The similarities between colleges and other industries
1. Cost Disease
What is Cost Disease

↑ Productivity in goods manufacturing,
   ► ↓ Cost in goods manufacturing.

With No Productivity Growth in Services
   ► ↑ Relative Prices of services
Prices of Goods, the Prices of Services, and the Prices of Goods and Services, 1947=1
2. The Costs of Employing Highly Educated Labor

Why don’t the prices of the services provided by colleges, doctors, and lawyers follow the same time path as the price of barbers’ services?
<table>
<thead>
<tr>
<th>Industry</th>
<th>High-skill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research &amp; Development</td>
<td>72.0</td>
</tr>
<tr>
<td>Education</td>
<td>68.3</td>
</tr>
<tr>
<td>Computer &amp; Related Activities</td>
<td>65.7</td>
</tr>
<tr>
<td>Publishing</td>
<td>49.3</td>
</tr>
<tr>
<td>Aircraft &amp; Spacecraft</td>
<td>43.7</td>
</tr>
<tr>
<td>Electrical &amp; Optical Equipment</td>
<td>42.8</td>
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<tr>
<td>Post &amp; Telecommunications</td>
<td>38.2</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>22.1</td>
</tr>
<tr>
<td>Transport &amp; Storage</td>
<td>18.1</td>
</tr>
<tr>
<td>Metals</td>
<td>14.3</td>
</tr>
<tr>
<td>Textiles</td>
<td>11.6</td>
</tr>
<tr>
<td>Construction</td>
<td>11.2</td>
</tr>
</tbody>
</table>
Wages of High Skilled Workers

Flat and declining real prices in the 1970s

1. Productivity Growth Slowdown
Output per labor hour in manufacturing.
  ↑ 3% per year 1960 - 1972
  ↑ 1.85% per year 1973 - 1981
  ↑ 3.2% per year 1982-1995

2. College to high school wage premium declined in the 1970s
3. Standard of Care
The Dysfunction Narrative

- Waste at Colleges and universities
  - Useless research
  - Administrative bloat
  - Tenure and lazy professors
Rhetoric vs. Reality

Does Useless Research ....

Drive up College Cost
Indexes of Current Fund Expenditure 4-year and 2-year, 1971-2001
Administrative Bloat at American Universities:
The Real Reason for High Costs in Higher Education

Jay P. Greene
Goldwater Institute Policy Report
August 17, 2010
What About Tenure?
Percentage of Full-Time Instructional Faculty with Tenure
A Final Word about Context

What about the 1970s?

Did Colleges experience a burst of functionality?
Challenges Ahead: Is a College Education Increasingly Less Affordable?

The Great Higher Education Bubble of 2012?

Does a college education remain a worthwhile “investment?”
Wages of High Skilled Workers

Is A College Degree a Guarantee of Success?

High School Graduate vs College Graduate

Wages
Percentage of the College Distribution with Incomes Less than the High School Median
Percentage of College Graduates Earning less Income than the Median High School Graduate, 1964-2010
Unemployment Rates by Education Levels, 1992-2010

- Not a High School Graduate
- High School Graduate
- Some College or Associate Degree
- Bachelor's Degree or Higher
Jobs of the Future

• What can be automated will be automated, or outsourced.
• The targets: Routine and repetitive tasks that require little judgment or choice.
• First, they came for the unskilled ...
• The economic importance of developing sound reasoning skills and a broad knowledge base
• Sounds like an economic case for the liberal arts.
How do we Measure Affordability?

- Any increase in “real” price?
- Tuition rising as a percent of family income?

This is how most people think about affordability, but ....

Over time, lots of prices change, and so does your income. After all of these changes, can you buy what you used to buy and have income left over?
Some Context: All Services

• In 1959, services constituted 45.7% of personal consumption expenditures.
• In 2009, services took 67.7% of personal consumption expenditures.
• Between 1970 and 2000, real income per worker rose by 22% after deducting the rising cost per student at public universities.
College Affordability and the Public Finance Crunch

State Support for Higher Education per 1,000 of State Personal Income, 1961-2011

- Federal
- State and Local
- Families
Productivity and Wages

nonfarm business sector, selected periods, 1947–2009

Average annual percent change

<table>
<thead>
<tr>
<th>Period</th>
<th>Productivity</th>
<th>Real Hourly Compensation</th>
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</thead>
<tbody>
<tr>
<td>1947–73</td>
<td>2.8</td>
<td>2.6</td>
</tr>
<tr>
<td>1973–79</td>
<td>1.1</td>
<td>0.9</td>
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<td>1979–90</td>
<td>1.4</td>
<td>0.5</td>
</tr>
<tr>
<td>1990–2000</td>
<td>2.1</td>
<td>1.5</td>
</tr>
<tr>
<td>2000–09</td>
<td>2.5</td>
<td>1.1</td>
</tr>
</tbody>
</table>
Current Issues in Access and Affordability

• Funding crisis for public higher education forces a choice between higher tuition and reduced quality. *The Unholy Trinity.*
• Stagnant real incomes at most income levels drives the politics of higher education.
• Tuition discounting is the institutional response at private universities, and is the future at many public universities.
• But tuition discounting adds complexity and uncertainty, both of which impact access.
Not Dr. Pangloss
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