

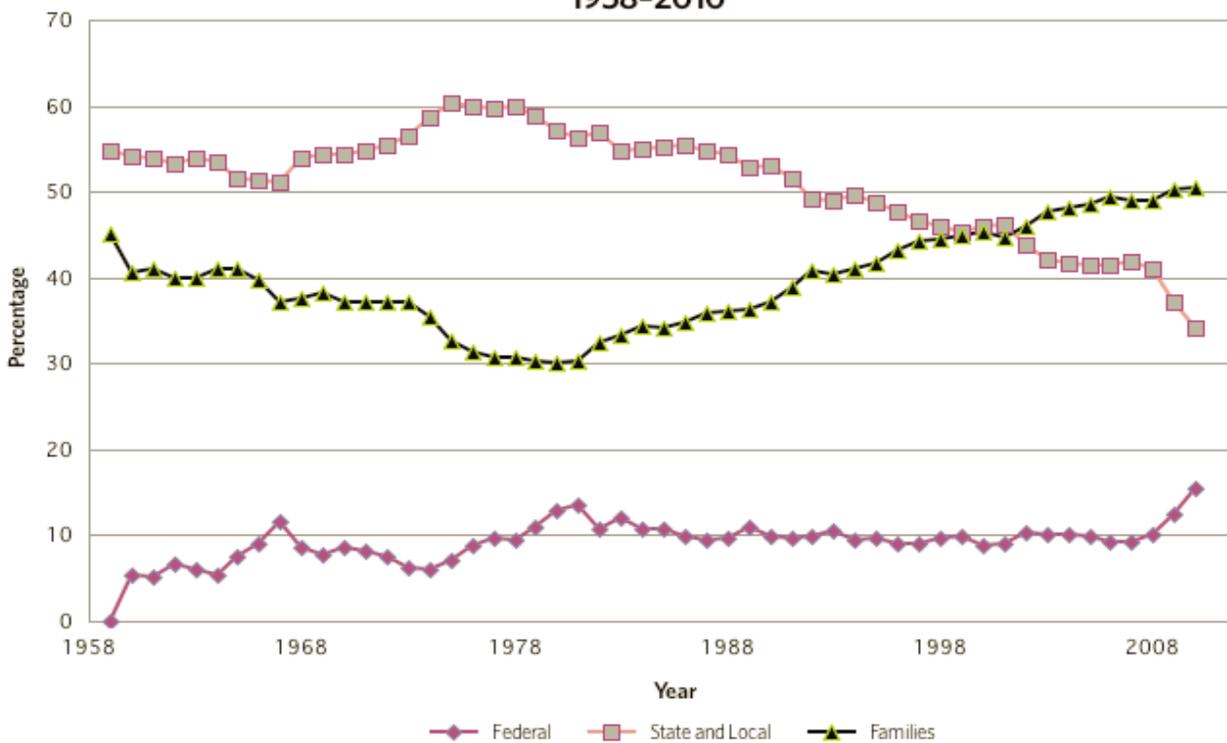
**Date:** April 18, 2012

**Subject:** Update: Why Does College Cost So Much?

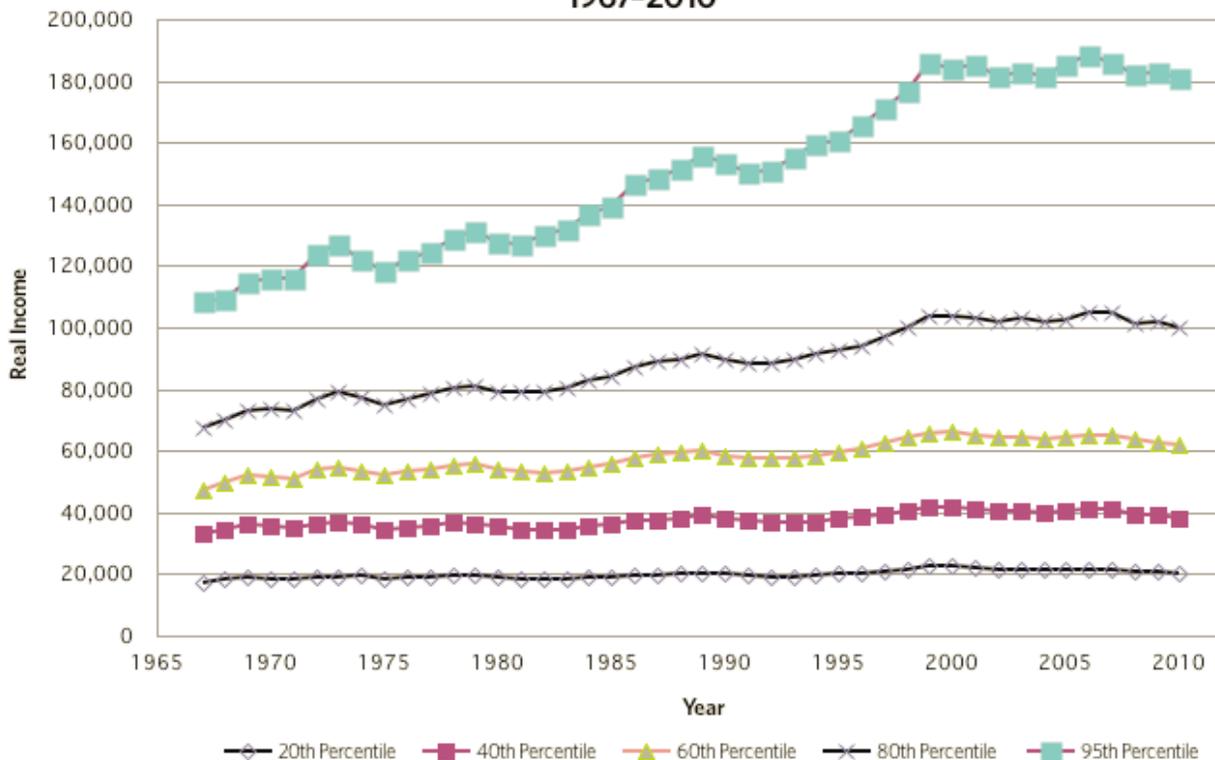
In 2010 Robert Archibald and David Feldman, economists at the College of William and Mary, published ‘Why Does College Cost So Much?’. The book is an attempt to dispel commonly asserted narratives that blame rising college costs on a particular set of actors (government, administration, faculty, or even students and families) who have created institutional dysfunction that must be targeted for reform. Instead of these often politicized arguments, they examine the higher education industry in the context of the American economy with the basic assumption that economic forces acting on and reshaping other industries might also be applicable to higher education. The authors focus particularly on the role of technology in reducing the costs of manufactured goods and agricultural products, but not services. We wrote a summary of that book, which provides an overview of their arguments, evidence and recommendations.

With colleges cost still dominating higher education debates, Archibald and Feldman have followed up with an article form of their book. In The Anatomy of College Tuition, the authors repeat their argument for why college prices have risen consistently at rates above inflation and provide evidence to dispel commonly embraced ‘dysfunction’ arguments. They also discuss why affordability is not necessarily determined by cost, but instead by the relationship between real incomes and the overall cost of the goods and services it is used to purchase. The authors point out that there have been periods when increasing college costs did not have an impact on affordability because income rose more than enough to compensate. However, since about 2000, they show that the combination of increasing costs and loss of public higher education subsidy with flat and declining real incomes for most Americans has created a real affordability problem.

**Figure D. Percentage of Spending on Higher Education, 1958-2010**



**Figure E. Real Household Income by Income Groups, 1967-2010**



With the public subsidy in rapid decline and household incomes stalled, college affordability has become a barrier in an economy that needs *more* college graduates (necessitating even more access for lower and middle income students). Archibald and Feldman do not deny that college cost containment will require meaningful productivity gains, but they fear that the desire for quick and radical change will lead to the adoption of reforms (like government imposed price controls, or wholesale adoption of online instruction) that severely undermine the quality of the education offered. Instead they argue for more incremental changes to ensure that we preserve what is valuable about American higher education in the process. This includes a major simplification of the financial aid process and reduction in use of merit aid (which pushes sticker prices up and diverts financial aid from those who need it), and starting systematic experimentation in how to best incorporate technology into the education process.

Although many want easy to identify ‘bad actors’, and simple and radical solutions, our higher education system has adapted to varying needs over hundreds of years and is highly complex. It also does not exist in a vacuum, but in a complex economy where major forces beyond the institutions are impacting government resources and the distribution of income with major implications for college affordability. The arguments and evidence presented by Archibald and Feldman are compelling and any discussion of college costs and higher education reforms ought to address them.