Common Hour lecture by David Feldman K'78

"College Cost in Inflationary Times"

David H. Feldman emphasized that the *cost* of college, which is what the educational institution pays to provide services to students, is not equivalent to the *price* of college, which is what students pay for those services. Higher education is a lower productivity sector that incurs rising costs to keep up with the demands of a growing student body and modern day educational standards.

College costs have risen since World War II for reasons largely independent of inflation in the economy. Using a graphic timeline, he showed that during the high inflation of the late 70's and early 80's, college costs fell. The explanation? Many external factors, unrelated to generalized inflation in the economy, affect cost and price levels for a college education. Feldman focused on three key forces behind rising college costs: standard of care, college wage premiums, and Baumol's cost disease.

Higher education as a service industry has to respond to the demands of a changing market, so the cost of providing a higher education increases when "standards of care"change. To survive in a service industry, colleges and universities need to upgrade facilities, programs, and technologies provided to students and faculty. Forty years ago, an undergraduate college would not have taught econometrics, but today, Feldman said, it would be a form of "educational malpractice" not to offer that course to economic majors.

The college wage premium refers to the higher wages available to college-educated workers compared to people with high school diplomas. This premium creates a high demand for a college education. In turn, colleges incur higher costs for staffing and facilities to meet that demand. Furthermore, as the college wage premium rises, and the wage gap between graduates

and nongraduates in the workforce grows, colleges raise their prices to reflect the increase in value of the education they provide.

Baumol's Cost Disease refers to the phenomenon where, over time, lower-productivity sectors (like education and health care services) incur rising labor costs. As technology improves efficiency, high-productivity sectors (such as manufacturing) can pay higher wages. This creates upward pressure on wages for lower-productivity sectors that need to offer competitive pay in the labor market.

The three main causes of rising college *costs* are not necessarily related to how college *prices* have changed over time. College costs *are* rising as a reaction to a range of technological forces shaping the demands of today's workforce, but few students pay a price that covers those costs. By taking into account things such as household income and access to public appropriations (subsidies) towards higher education when practicing price discrimination, colleges have on average controlled the real list prices of their services over the past few years.

Feldman called attention specifically to the case of Purdue University, which has not raised its list price in over a decade. He argued that Purdue was largely able to freeze its tuition by changing the composition of its enrollment; the percentage of resident (in-state) students has fallen, while the percentage of foreign and non-resident (out-of-state) students has increased. Those out-of-state students pick up a large part of the price burden. Purdue, however, is a public education institution. Private colleges like Kenyon base their prices more on a percentage of a student's household income, where those with a higher income share more of the price burden. The main takeaway from Feldman's lecture was that the rising costs of higher education do not, after all, have much to do with inflation (a generalized increase in prices).

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