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Is a College Cap and Gown a Financial Ball and Chain?

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"A college education is not a quantitative body of memorized knowledge salted away in a card file. It is a taste for knowledge, a taste for philosophy, if you will, a capacity to explore, to question, to perceive relationships, between fields of knowledge and experience."
—A. Whitney Griswold, president of Yale University, 1951-63

The cost of a four-year college education has risen roughly 150 percent since 1980.[1] For this and other reasons, more and more students must take out student loans to finance their education. Upon graduation, many find they have accrued a sizable debt. Given the significant expense, some question the value of earning a college degree. However, along with the rising cost, the lifetime earnings difference between college and high school graduates has widened. The increased earnings potential of a bachelor's degree allows a college graduate to recover the cost of college over time and eventually surpass the earnings of those with only a high school diploma.

The College Board estimates that for the 2010-11 school year the average cost of a four-year college education is $37,000 per year at a private nonprofit university and $16,000 per year at a public university.[2] Over the past decade, the real cost of attending a four-year university increased an average of 3.6 percent per year. In contrast, for the same period, real personal income increased an average of only 2.1 percent per year (Chart 1). Consequently, more families turn to student loans for college funding. The College Board estimates that the percentage of students with federal student loans increased from 27 percent in 2004-05 to 35 percent in 2009-10.[3] While estimates vary, a typical 2009 college graduate accumulated $24,000 in student loan debt, up 6 percent from the previous year.[4]

For college to be a good investment, the benefits of a degree (e.g., higher pay) must outweigh the opportunity cost of attending. In this case, the opportunity cost is the sum of tuition and housing costs plus the wages that would have been earned from working directly after graduating from high school.[5] Recent data show that while the cost of college increased, the labor-market value of a bachelor's degree climbed to an all-time high (Charts 2 and 3). In 2008, college graduates earned on average 77 percent more than high school graduates.[6] Also, from 1998 to 2008 the difference between the median earnings of those with a bachelor's degree and those with only a high school diploma increased by approximately 23 percent. This increased earnings potential allows college graduates to "catch up" relatively quickly in terms of net lifetime earnings.

According to the College Board, recent college graduates who completely financed their education with student loans will earn enough by age 33 to cover the cost of those loans *and* match the to-date lifetime earnings of those the same age with only a high school diploma.[7] Thus, the opportunity cost of attending college is recovered over time. A college degree also lowers the probability of unemployment: From 1998 to 2011 the average unemployment rate for those with at least a bachelor's degree was half that of those with only a high school diploma. Overall, a college degree still remains a wise investment.

—By Lowell R. Ricketts, Research Associate

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[1] Figures are listed in inflation-adjusted (real) terms. Costs are defined as the sum of published tuition and fees plus room and board charges. Data are from the College Board Advocacy and Policy Center. "Trends in College Pricing 2010." 2010.

[2] College Board Advocacy and Policy Center. "Trends in College Pricing 2010." 2010, p. 15.

[3] College Board Advocacy and Policy Center. "Trends in Student Aid 2010." 2010, p. 15.

[4] The Project on Student Debt. "Student Debt and the Class of 2009." October 2010, p. 1.

[5] The opportunity cost of *money*—the accrued return from the next best investment to paying tuition out of pocket—should also be considered.

[6] Baum, Sandy; Ma, Jennifer and Payea, Kathleen. "Education Pays 2010: The Benefits of Higher Education for Individuals and Society." College Board Advocacy and Policy Center, p. 16.

[7] Baum, Sandy; Ma, Jennifer and Payea, Kathleen. "Education Pays 2010: The Benefits of Higher Education for Individuals and Society." College Board, p. 13. This estimate takes into account several factors such as years in school, total student loan debt, and time employed. The actual "breakeven" point will vary depending on an individual's specific circumstances.

Recent Articles and Further Reading on Financing Higher Education

"Cap in Hand: The High Cost of Higher Education," by Ed English. Federal Reserve Bank of Atlanta *EconSouth*, First Quarter, 2011.

This article discusses reasons for tuition inflation and its likely continued trajectory.

"As College Costs Rise, Student Loans Are Harder to Find." Federal Reserve Bank of St. Louis *Inside the Vault*, Fall 2009.

This article provides a simple overview of college costs, types of college loans available, and the challenges of obtaining loans.

"Education and Earnings," by Douglas C. Smith. Federal Reserve Bank of St. Louis *Liber8 Newsletter*, August 2009.

This article discusses the strong link between education and earnings.

Free Data Sources and Resources

Resource: *What's It Worth? The Economic Value of College Majors*, by Anthony P. Carnevale, Jeff Strohl, and Michelle Melton
Description: Provides data on the returns to education by major and gender and race within majors.
Published by: Georgetown University, Center on Education and the Workforce, 2010
Location: http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/whatsitworth-complete.pdf

Resource: Digest of Education Statistics, 2010
Description: Extensive data on American education, including enrollment, expenditures, and educational attainment. Includes a chapter with international comparisons.
Published by: National Center for Education Statistics, U.S. Department of Education Institute of Education Sciences
Location: http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2011015

Resource: *Recruiting Trends 2010-2011*, by Phil Gardner, Ian Render, and Noelle Sciarini
Description: Explores the job market for recent college graduates based on a survey of 4,600 employers. Data include hiring by industry sector and starting salaries in 2010-11.
Published by: Career Services and the Collegiate Employment Research Institute, Michigan State University
Location: http://www.ceri.msu.edu/wp-content/uploads/2010/11/2010-11%20RT.pdf

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