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Is a Basic College Education Still Worth the Cost?

Alan Benson, University of Minnesota-Twin Cities
Frank Levy, Massachusetts Institute of Technology
Raimundo Krishna Esteva, Management Consultancy

In America, a college education has long been touted as a "ticket to the middle class." But after years of rising tuition and ballooning student loan debts, many critics are asking tough questions – and some go so far as to suggest that in the early twenty-first century, college is just not worthwhile for many people.

This critique is often posed in hard dollars and cents terms. Some recent studies claim that the economic return for many studying for college bachelors' degrees is significantly overstated, not only because of high costs but also because relatively few graduates build careers in fields related to the majors they pursued at college. Critics are getting through to the general public. Survey results suggest Americans are increasingly skeptical that the benefits of a college education justify the escalating costs to students and their families.

A Comprehensive New Study

As economists, we decided to assemble and analyze fresh data to see whether, from the perspective of a high school senior, entering college would be a good investment whose return exceeds the cost of borrowed funds. We answer this question using data from the U.S. Census and institutional experiences of the many colleges of the University of California and California State University systems between 1980 and 2010.

Of course ours is not the first study to probe the bachelor's degree as an investment. Many prior studies have estimated positive returns, exceeding non-educational benchmarks for investment quality. Yet our approach departs from and seeks to improve upon prior studies by taking the following key steps:

- The typical published estimate of the return to investments in earning bachelor's degrees assumes that students enroll in college and graduate with their degrees in four years. We adjust for that fact that, in practice, many students drop out or take longer than four years.

- Graduates' incomes have usually been estimated with data on pre-tax earnings. But we take into account that progressive tax brackets disproportionately affect higher-earning college graduates and thus reduce the income returns they actually see from their degrees.

- Prior estimates calculate a single rate of economic return as if that rate were a certainty for all students who head to college. In fact, college entrants may drop out or take longer than four years to graduate; and those who do graduate will take various jobs and earn salaries that vary widely. Because studying for a bachelor's degree is a risky rather than sure investment, our analysis tracks the potential risk over time that students might face in servicing college loans.

Tellingly, when we analyze our data using these realistic adjustments, our final estimates of the economic returns of a college education fall below those published by earlier researchers. This suggests that earlier studies that did not adjust for varying times to degree obtainment or risks of dropping out, and the range of possible post-degree earnings, actually overestimated the investment value of studying for a basic college degree. We believe our estimates are more accurate and, in essence, present a cautious case.

College is Still a Good Investment

Nonetheless, our findings lend support to those who argue that college is still worth the cost.

- **For individuals now as in the past, the rate of return on educational investments for students admitted to the California colleges we examined exceeds the cost of borrowing** (at both subsidized and unsubsidized Stafford loan rates). In arriving at this conclusion, we take into account the

possibility that some students might have the ability to succeed without a college degree.

- **Society also gains, not just individual degree recipients.** We used the interest rate on municipal bonds as a proxy for society's borrowing costs, and found that a student pursuing a bachelor's degree in either California university system generates societal returns well above the interest rate on such bonds.

- **Although still worthwhile on average, investments in attaining bachelor's degrees are increasingly risky.** Risk has gone up significantly since 2000, because rising tuitions and greater economic inequality have increased the probability that former students can run into difficulty with their student loans.

Looking Ahead

Even though our study adjusted for overly optimistic assumptions made by previous researchers, we still show that college remains a good investment for the average California student and for American society. Nevertheless, it is true that more graduates now run the risk of *not* earning enough to make their investment in college worthwhile. This reality explains why many families of ordinary means are increasingly skeptical about paying for college. They lack the resources to absorb the risk that a college degree may not pay off enough in an economy where earnings are increasingly unequal.

Our study shows that a college degree still delivers good economic value, yet it also underlines that minimizing risk is increasingly important. For individual students, this may mean striving to complete the degree in a lucrative field in just four years. For society, our findings suggest the wisdom of "income contingent" college loan programs, which have recently seen some expansion. By allowing graduates to repay at different rates depending on what they eventually earn, these loans reduce risks to individual students and their families, and allow America to continue to reap the rewards of an expanding college-educated workforce.

Read more in Alan Benson, Raimundo Krishna Esteva, and Frank Levy, "The Economics of BA Ambivalence: The Case of California Higher Education," Massachusetts Institute of Technology, September 2013.