Is College a Good Investment?

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…by 2020, America will once again have the highest proportion of college graduates in the world.

President Obama
(State of the Union Remarks, 2009)
…my Administration will release a new “College Scorecard” that parents and students can use to compare schools based on a simple criteria: where you can get the most bang for your educational buck.

President Obama
(State of the Union Remarks, 2013)
Is college a good investment?

• What are we asking, exactly?
  » A theoretical framework

• What do we know?
  » Existing evidence
  » Some new findings

• What should we do about it?
  » Policy recommendations
Theoretical Framework

• Education creates public and private returns
  » Public return
    – Neighborhood effects
    – Justification for subsidies
  » Private return
    – Financial (wages)
    – Non-pecuniary
Private Financial Returns to College

• Why?
  » Easy to measure
  » Important for public policy

• Human Capital Theory
  » Individuals invest in education to the extent that it increases lifetime earnings
Private Returns to Education
The Cost of College

- Among full-time undergraduates at public and private nonprofit four-year institutions, the median published tuition and fee price in 2013-14 is $11,093.
- Most students pay less than published tuition and fees
- Net cost rising more rapidly than inflation
- Opportunity cost – estimated $54k
Labor Market for College Grads

- Growing wage differential - $15,000 (HS/BA, 2011)
- Lower rates of unemployment
  - September 2013
    - 3.7% unemployment for BA degree
    - 7.2% among high school
Median Earnings of Full-time Workers by Educational Attainment (2011)
Financial Returns to College

• Difficult to measure
  » Correlation or causation?

• 1 year of college → 10%

• Over lifetime
  » BA: $570,000, Associates: $170,000
  » Over the last 30 years, the increase in lifetime earnings brought by a college degree has increased by 75 percent, whereas costs have increased by 50 percent
Q: Is college a good investment?
Q: Is college a good investment?
A: Yes (for most students).
Variation in Outcomes

- Large variation in outcomes across students, institution and fields of study.
- According to Pay Scale data as many as 200 4-year programs may have negative ROI
Return on Investment of a Bachelor’s Degree by Institution Type

Source: Schneider (2010).
Note: Data uses PayScale return on investment data and Barron’s index of school selectivity.
Source: Julian (2012).
Note: Synthetic work-life earnings estimates are calculated by finding median earnings for each 5-year age group between 25 and 64 (25-29, 30-34, etc.). Earnings for each group is multiplied by 5 to get total earnings for that period, then aggregated to get total lifetime earnings. This is done for high school graduates, bachelor's degree holders, and bachelor's degree holders by major.
Conflict with Popular Narrative

- Outstanding debt passed $1 trillion
- Media provides anecdotes of graduates in financial distress
  » Basement dwellers
- How does this reconcile with other evidence?
Percent of Graduates Living with Family One Year Following Graduation

Level of Borrowing

Source: NCES, Degrees of Debt
The Truth About Student Loan Debt

• Average student borrows $25k for BA
  » ($24k at public, $30k at private)
• In 2010, average outstanding debt among ages 20-40 is $6,500
• Average monthly loan payment: $144
• Average earnings: $44,000
## Debt Outstanding in Young Adulthood

### Table 1. Incidence and Amount of Debt Over Time, Age 20-40

<table>
<thead>
<tr>
<th>Year</th>
<th>Incidence</th>
<th>Mean Debt</th>
<th>Those with Debt</th>
<th>Cell size</th>
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<tbody>
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<td></td>
<td></td>
<td></td>
<td>Mean</td>
<td>Median</td>
</tr>
<tr>
<td>1989</td>
<td>14%</td>
<td>$806</td>
<td>$5,810</td>
<td>$3,517</td>
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<tr>
<td>1992</td>
<td>20%</td>
<td>$1,498</td>
<td>$7,623</td>
<td>$3,730</td>
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<tr>
<td>1995</td>
<td>20%</td>
<td>$1,475</td>
<td>$7,521</td>
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<td>1998</td>
<td>20%</td>
<td>$2,539</td>
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<tr>
<td>2001</td>
<td>22%</td>
<td>$2,881</td>
<td>$12,939</td>
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<tr>
<td>2004</td>
<td>24%</td>
<td>$3,402</td>
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<td>2007</td>
<td>28%</td>
<td>$4,583</td>
<td>$16,322</td>
<td>$9,728</td>
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<tr>
<td>2010</td>
<td>36%</td>
<td>$6,502</td>
<td>$17,916</td>
<td>$8,500</td>
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</tbody>
</table>
Trends in Debt over Time, Households with Average Age 20-40, 1989-2010
Distribution of Education Debt, 1989/1992 and 2010
Review

• College pays off for most students
• Education debt crisis is not on the horizon
• What now?
  » Focus on the minority who do face bad outcomes.
Next steps - Research

• Identify groups facing bad outcomes
• Identify institutions producing bad outcomes
  » Individual or categories
Next steps- Policy

- Institutional accountability
- Create sophisticated consumers
  » Financial literacy
  » Availability of information
- Safety nets are critically important
  » Income based repayment system