College Is Still a Good Investment

By Catherine Rampell

College enrollment is dropping again - and that's a bad thing.

A Labor Department report released this week finds that the share of young people enrolled in college by the October after they graduate from high school has tumbled in the past few years. From a high of 70.1 percent in 2009, it was down to 65.9 percent in 2013. Other reports have found similar declines in enrollment for the entire universe of college students, not just those coming directly out of high school.

No doubt many pundits will celebrate this news. The previous swells in postsecondary enrollment, driven partly by the lackluster job market, brought frequent calls of a "college bubble." Just as the government subsidized too much homeownership, the argument goes, it's also been subsidizing too much higher education.

After all, freshmen land on college campuses bright-eyed and bushy-tailed, expecting to enrich their minds and, eventually (post-degree), their bank accounts.

Instead, they graduate financially crippled by loan debts. Many can't find jobs, or they find jobs that don't require a bachelor's degree.

But here's why college is still worth it, and still worth subsidizing.

Even though unemployment rates for young college grads seem high - especially in the first few months after graduation - they're still much lower than they are for people without degrees. According to Labor Department data, the unemployment rate for Americans ages 20 to 29 who have a bachelor's degree was 5.8 percent in 2013. In that same age group, among people with no education beyond a high school diploma, it was 14 percent.

And for those who do find work, the wage premium for higher education has grown over time. In 1979, among full-time workers of all ages, the median college graduate earned 38 percent more than did the median high school graduate; today the college-educated worker earns about 82 percent more. College is, as the Hamilton Project has pointed out, one of the best possible investments you can make, outperforming stocks, gold, long-term Treasurys, AAA corporate bonds and housing. That's true for both a four-year degree and even more so for an associate's degree.

A college degree is certainly no guarantee of financial success, but it is nearly a prerequisite for moving up the income ladder if you're poor. Of Americans born into families in the bottom income quintile, almost half who didn't get a college degree remained stuck in the poorest income quintile as adults; the same was true for just 10 percent of Americans born poor who then got a college degree, Pew's Economic Mobility Project found in 2012.

As for why higher ed should be subsidized: There are large, positive spillover effects from having a more educated workforce beyond the gains that accrue to the degree-holder. Research has found that having a higher concentration of college graduates in a local economy increases the wages of not only the college grads themselves but also those without bachelor's degrees. (Which is why it's especially
shortsighted for states to cut higher education funds, which forces schools to raise tuition and price out the more marginal matriculants.)

One of the silver linings of the financial crisis might be that the lousy job market drove many people into, or back into, college to upgrade their skills. They are reemerging more skilled and better equipped to help expand a 21st-century economy, once it fully heals - just as the surge in college-going enabled by the GI Bill helped grease the economy during the postwar boom.

That said, critics are right that not everyone is using their college-going years wisely or investing in the most lucrative skills. The usual punchline is that too many people are majoring in women's studies or English. These are not the biggest sources of growth, though; in fact, "area, ethnic, cultural, gender and group studies" represented less than 1 percent of bachelor's degrees awarded in 1970-71 and 2011-12, according to the National Center for Education Statistics. The share of English majors has shrunk over the past 40 years, both as a percentage of all newly awarded bachelor's degrees and in raw numbers. Instead, the undergraduate disciplines with the most growth, in raw numbers, are business, the health professions and communication/journalism.

Yup, you read that right: Communication/journalism degrees now represent almost 1 in 20 of all newly awarded bachelor's degrees (because there's so much growth in media jobs?). Meanwhile, the share majoring in engineering, math and the physical sciences has fallen.

Public policy could do much more to nudge students into disciplines that produce bigger private and public economic returns, including better career counseling or tuition discounts in fields where there are expected skill shortages. But first things first: We need to stop playing down what a great investment college is for most Americans.

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