She The People

Do the benefits of a college education outweigh the cost?

By Joann Weiner August 22, 2014

It's late August and thousands of teenagers are moving out of home to begin their college careers. While these freshmen are undoubtedly excited about starting this new adventure, as time passes, many of them might wonder whether the benefits of their college education will be worth the cost to obtain that education. Their parents who are footing a bill that may exceed a quarter of a million dollars by the time their child earns the prized college degree may also wonder whether those funds could have been better invested elsewhere.

This kind of thinking may be particularly true for students who will borrow tens of thousands of dollars to pay for their bachelor's degree and yet may find themselves four years later working at a Starbucks or driving a car for Uber.

It's also this kind of thinking that's reflected in surveys like the one the Pew Research Center conducted a few years ago that reported a majority of Americans said that college wasn't "worth it" because it didn't "provide students with good value for the money they and their families spend," and in the recent household survey by the Federal Reserve Board, where 37 percent of respondents said that the net financial benefit of their education was negative.

Those are pretty sobering figures for a country where two out of three recent high school graduates are enrolled in college, up from just one in two graduates 30 years ago. Why are they going to college if it's not worth it?

This is a difficult question to ask, especially considering that President Obama has said that "Higher education is not a luxury. Earning a post-secondary degree or credential is a prerequisite for 21st century jobs, and one that everyone should be able to afford."

So, the question becomes, would students be more satisfied with their college education if it didn't cost so much?

Before answering that question, it's worth looking in depth at how much it costs to attend college. That's a hard question to answer because there are wide differences between the sticker price of a year in college — it averages about $40,000 a year at a four-year, private institution and $17,000 at a four-year public institution — and what a student actually pays out of pocket after taking into account financial aid, scholarships, and other tuition assistance programs. (The comparable figures covering just tuition and fees are about $29,000 at a private college and $8,000 at a public college, according to the National Center for Education Statistics.)

Thus, answering the question about whether college is worth it from a financial point of view depends on knowing how much financial "help" a student receives from the college.

By way of comparison, consider two private and two public four-year, degree granting universities. The first is George Washington University, where I teach economics, and the second is the University of California at Berkeley, where I earned my undergraduate degree. I've added Harvard University because that school is often used as a standard for many comparisons, and California State University at Los Angeles because it's a low-cost public institution.

The data come from the federal government's College Affordability and Transparency

Center, which shows the average net price a student pays per year at the particular college or university. The net price subtracts grants and scholarships, which are amounts that a student doesn't have to pay back, from the total cost of attendance to obtain a figure that reflects a student's actual costs. (The total cost includes room and board, books and supplies, and personal expenses.) The student will have to pay back any loans taken out to pay for the remaining expenses.

According to the CATC, a typical GWU student will pay a net price of $31,443 a year after scholarships and grants. That student will borrow a total of $24,050 and make $276.77 payments each month for 10 years to repay the loan.

A typical student at U.C.-Berkeley will pay $16,178 a year after scholarships and grants and have $16,028 in federal loans for a monthly payment of $184.45 over 10 years.

For Harvard, a student will pay $14,445 a year after scholarships and grants and take out $11,000 in federal loans for a monthly payment of $126.59 over 10 years.

Finally, a student at California State University-Los Angeles will pay $3,713 a year after scholarships and grants. That student will have the same amount of federal student loans as the Harvard student and, therefore, have the same monthly $126.59 payment.

Four colleges, four net prices: $31,443, $16,178, $14,445, and $3,713. Which college provides the greatest net benefit?

It's hard to tell. But, what these figures do show is that looking at the sticker price doesn't reflect the value of a college education.

Moreover, even the net price doesn't tell the whole story, since scholarships and grants aren't the only things that reduce the cost of college.

Students (or their parents) may also qualify for a host of education-based tax breaks, such as the American Opportunity and the Lifetime Learning Credit, and may set aside money in tax-favored education savings accounts, known as Section 529 plans and Coverdell Education Saving Accounts, that reduce the cost of saving for college. In many cases, interest paid on qualified student loans is tax deductible.

Finally, the federal government offers several “income-driven” student loan repayment plans that limit the monthly payments to a certain amount of income in exchange for extending the loan repayment period and forgive any loan amount unpaid after that period. One plan recently cut the monthly payments from 15 percent to 10 percent of disposable income and reduced the repayment period to 20 years from 25 years. Most federal student loans qualify for one of these loan repayment plans.

Despite these figures, some argue that these loan repayment programs represent “government bailouts” of college graduates, as Lindsey Burke wrote in “The Signal.” Others note that a college degree is no longer required to get a good job, especially since almost four of every ten college graduates are working at jobs that don’t require a college degree. Fruzsina Eordogh is one of those students who dropped out of college to work as a full-time writer for the Daily Dot (Facebook’s Mark Zuckerberg, Microsoft’s Bill Gates, and Apple’s Steve Jobs are three of America’s most famous college dropouts.)

But, just because the job doesn’t require a college degree doesn’t mean that a college degree isn’t a good investment. People with college degrees tend to keep their jobs during recessions and have a lower unemployment rate over time than those with just a high school degree. Most of the new post-recession jobs require a college degree. As the Pew Research Center found, the “big payoff” to a college degree isn’t so much in earnings but the ability to have and to keep a job.

Finally, it’s important to look beyond financial compensation to measure the benefits of a college education. Studies show that people with more education are in better health, their children are in better health, and their marriages are more stable relative to people with less education.

The point of these studies isn't whether college provides a net financial benefit to the student, but whether college provides a net benefit overall.

Here, the bottom line is positive. The Pew survey showed that the vast majority of graduates from a four-year institution say their college education helped them grow intellectually and to mature as a person. In other words, college may teach students as much about getting along with people as it does about analyzing Shakespeare's sonnets.

On that score, college provides a clear net benefit, not just for the student but for society as well.

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