**02/17/2014**

[**The Myth of Excess Enrollments in College-Becker**](http://www.becker-posner-blog.com/2014/02/the-myth-of-excess-enrollments-in-college-becker.html)

 The print media and the blogosphere have many discussions of the high and rising cost of attending college, the debt burden weighing on college students, the fact that the average real earnings of college graduates have risen only slowly during the past 40 years, and the difficulty young college students are having in getting good jobs. The conclusion frequently reached is that too many high school graduates seek a college degree, and that these graduates have been sold a bill of goods about the value of a college education.

 The facts cited are generally correct, but the conclusion about the low value of going to college is completely wrong. The fallacy stems from believing that earnings from a college education determine the benefit of a college education. The truth is that the benefit is determined by the earnings from a college education **relative** to what earnings would be if a person stopped her education after high school. A first approximation to this gain in earnings for the typical person is given by the difference between the average earnings of college and high school graduates.

 A recent study by the Pew Research Center conveniently brings out some facts that have been known, but are worth repeating. The study looks at changes over time in the ratio of the earnings of the average college graduate aged 25-32 relative to the average earnings of high school graduates of the same ages. They divide successive cohorts into Millennials (born after 1980), Generation Xers, Baby Boomers, and older Silents (b orn between 1928 and 1945). The study finds that young college graduates earned on average about 24% more than young high school graduates in the Silents generation, but this percent difference increased to about 47% in the Boomers generation, and now young Millennial college graduates are earning more than 60% than young Millennial high school graduates.

The study understates the trend in the earnings of high school graduates by including persons with a graduate equivalence degree (GED), whose numbers have grown in importance over time. Studies by Heckman and others show that the GEDers should be treated as high school dropouts, not high school graduates, since their earnings are similar to those of dropouts.

 The recession hit the earnings and employment of college graduates, but it hit even worse the earnings and employment prospects of high school graduates. As a result, the recession actually increased the gain from graduating from college.

 While the price level adjusted average earnings of college graduate grew slowly over the 45-year period of the Pew study, the average real earnings of high school graduates and dropouts actually fell over this long time period. This is why the gap between earnings of college and high school graduates grew by so much. Graduating from college paid off very well not in absolute terms but relative to the alternative, which is the only way to measure the gain from college.

 Of course, the change in the cost of attending college also has to be considered before one can conclude that college is a good investment. And college tuition has grown at an unusually rapid rate over the past 35 years. Nevertheless, college remains a good investment after netting out the cost of tuition from the higher relative earnings of college graduates. The Pew study also asked young Millennial college graduates whether they felt college was worth the significant financial cost. About 90% of these young graduates said college had either already paid off (83%) or will pay off in the future (8%). Such confidence in the value of their college degree even holds for the two-third of these Millennials who borrowed money to help pay for their schooling.

 Over the past 45 years the fraction of young persons who graduate from college has greatly increased, although the rate of increase slowed during past 20 years. That the returns from college increased even though many more young persons are completing college implies a powerful growth in demand for college graduates over this time period.  The growth in demand for college graduates is related to the development of the Internet and other technologies, the growth of the service sector, and globalization. High school graduates can no long count on getting good jobs in manufacturing.

 The study also shows that the fraction of college graduates with student loans grew quite rapidly over time as tuition rose rapidly and as government-supported loans became more readily available- 66% of Millennials took out loans vs. 43% for Baby Boomers. The burden of these loans is usually exaggerated since most graduates can easily finance their loans from the higher earnings they receive. Graduates who borrowed a lot and are earning relatively little are the ones who face a loan burden. The best way to help such college graduates is to have a repayment system whereby individuals who earn more pay back more, while those who earn less pay back less.

Such an income-contingent loan program works best when graduates face risk to their future earnings that they cannot predict very well. As a way of dealing with risk it works not so well when future earnings are more predictable. In particular, it favors graduates in low paying fields, like K-12 teaching- and hurts graduates in  well-paying fields, like business or finance. On the whole, an income-contingent system is probably better than the present fixed repayment system, but it is not a panacea.

**02/16/2014**

[**Excess Enrollments in College? Could Be. Posner**](http://www.becker-posner-blog.com/2014/02/excess-enrollments-in-college-could-be-posner.html)

Becker’s data are solid, but I am not what inferences can be confidently drawn from them.

In particular, I doubt whether it’s possible to infer the *value* of a college education from a comparison of earnings of college graduates to earnings of persons who do not graduate from college (I’ll ignore the intermediate category—persons with some college but not a bachelor’s degree or better). The reason is that kids are not randomly assigned to go, or not to go, to college. The noncollege graduates are therefore not a valid control group. I am not aware of whether there have been efforts to control for IQ differences in assessing the effect of a college education on earnings.

Suppose returns to IQ have risen because of the increasingly technological character of economic activity (including finance), increased automation of work tasks (including many service jobs), and increased outsourcing of low-skill jobs in manufacturing. This does in fact seem to have happened. Such increased returns would increase the college enrollment and graduation rates because of the complementarity between IQ and college (and graduate-level) training. But the driver of the increased earnings of college graduates would be IQ and the college and graduate education of high-IQ kids, rather than the demand for college graduates as such. And there would be no basis for inferring benefits of college for kids who did not have high IQs.

Such a pattern would be consistent with excess college enrollments, if many college students were insufficiently intelligent, motivated, energetic, etc. to benefit from a college education, but were enticed by low-cost government loans and by skillful marketing into attending college.

I am merely questioning whether the difference between the average earnings of college graduates and of high school graduates (I am ignoring the average earnings of kids who don’t graduate from high school) *necessarily* represents the return to a college education. If the earnings of high school graduates are dropping because of reduced demand for such graduates owing to a shrinkage of the kind of jobs for which they are suited, the gap between earnings of college graduates and non-college graduates will expand even if there is no increase in the average earnings of college graduates. And there might not be an increase if a large number of high school graduates are enrolling in college who do not have the qualities that enable them to benefit from a college education.

Because as Becker points out the cost (the tuition cost rather than the opportunity cost) of college has been growing rapidly, attending college is a particularly bad choice for kids unlikely to benefit from a college education. It is then pretty much all cost and no benefit.

This leads me to question the proposal that debt on federal loans for college education be made inverse to incomes. That would mean that the lower the college graduate’s income, the lower his debt; but if his income is low, how likely is it that he benefited from college?

A better idea might be to borrow from the German model of providing technical education in lieu of college. There are many high-skilled jobs (though fewer than there used to be) that require careful training but not a college education, such as being a crane operator or an air traffic controller or a mortician. I don’t know why people who are aiming for such jobs, or who cannot realistically aspire to upper-middle-class jobs, should be attending college, other than for the prestige and social opportunities of being a college student and especially a college graduate—not that those are negligible dividends from a college education, but they will often not to be worth the cost, both direct and opportunity, of college.

I wonder what role high school guidance counselors do play or should play in helping high school students decide whether to apply for college admission. It would not surprise me if good counseling resulted in fewer applications.

And a final point: I think the “general education” that colleges traditionally impart is less important than it used to be because of the rise of the Internet. The Internet provides kids from early childhood on with immense informational (including cultural) resources, as a result of which I believe young adults today are better informed and more intellectually sophisticated than used to be the case. They may not need college as much, unless they are aiming for and have the aptitudes for an upper-middle-class career.