Is a college degree still worth it?

Eleni Karageorge

In “Do the benefits of college still outweigh the costs?” (Federal Reserve Bank of New York, Current Issues, vol. 20, no. 3, 2014), economists Jaison R. Abel and Richard Deitz find that despite the soaring cost of attending college, the financial benefits of higher education still outweigh the expenses.

“In recent years, students have been paying more to attend college and earning less upon graduation—trends that have led many observers to question whether a college education remains a good investment,” the report states. The authors analyzed the earnings since the 1970s of workers with bachelor’s degrees, workers with associate’s degrees, and workers with high school diplomas to determine that college remains a good investment.

A key reason why a degree remains a relatively valuable asset despite rising tuition is that the wages of those Americans without a degree have been falling, keeping the college wage premium near an all-time high, according to the report. Between 1970 and 2013, workers with a bachelor’s degree (excluding those who went on to a postgraduate degree) had annual earnings of about $64,500 after adjustment for inflation. Workers with an associate’s degree earned an adjusted $50,000 per year, and those with only a high school diploma earned $41,000. The authors calculate that, over four decades, workers with a bachelor’s degree earned on average 56 percent more and workers with an associate’s degree averaged 21 percent more than high school graduates.

Assuming that all workers retire at age 65 and that those who went to college spent 4 years in school to earn a bachelor’s degree or 2 years for an associate’s degree, workers with a bachelor’s degree earn well over $1 million more than high school graduates during their working lives. Workers with an associate’s degree earn about $325,000 more than high school graduates.

Abel and Deitz also found that the return on a bachelor’s degree, while averaging 15 percent for all college graduates, differs according to a student’s major. In general, majors providing technical training earned the highest return. Engineering majors earned the highest return—21 percent—followed by math and computer majors and health majors (18 percent) and business majors (17 percent). At the other end of the scale, the return is 11 percent for leisure and hospitality majors and 9 percent for education majors.

The authors note that people who pursue college “may well have aptitudes, skills, and other characteristics that make them different from those who do not go on to college.” These differences may be part of why college graduates earn more than nongraduates and were not accounted for in the calculations. Nonetheless, the authors conclude that once the full set of costs and benefits is taken into account, investing in a college education still appears to be a wise economic decision for the average student.