

**The
Economist**

Higher education

Is college worth it?

Too many degrees are a waste of money. The return on higher education would be much better if college were cheaper

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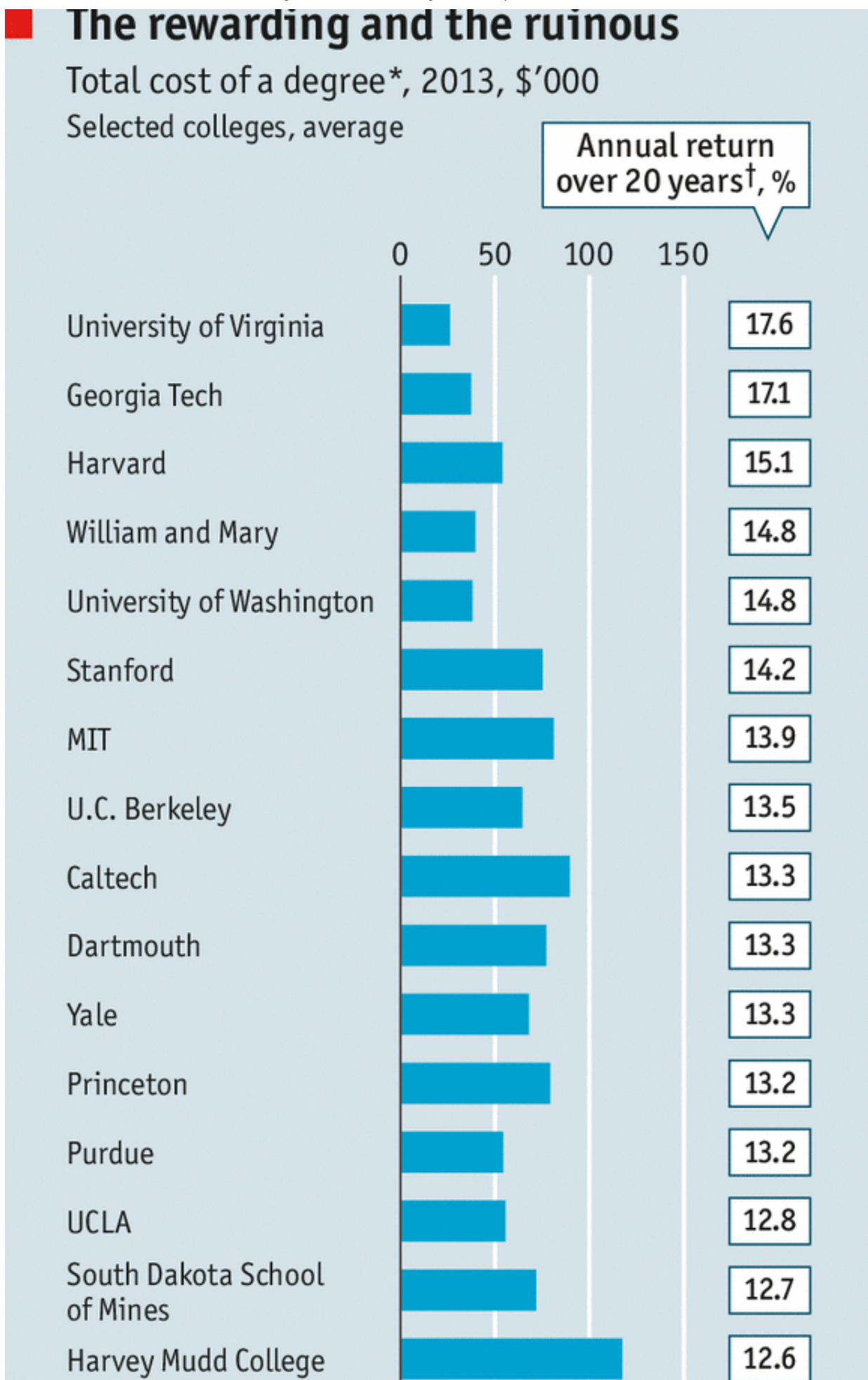
WHEN LaTisha Styles graduated from Kennesaw State University in Georgia in 2006 she had \$35,000 of student debt. This obligation would have been easy to discharge if her Spanish degree had helped her land a well-paid job. But there is no shortage of Spanish-speakers in a nation that borders Latin America. So Ms Styles found herself working in a clothes shop and a fast-food restaurant for no more than \$11 an hour.

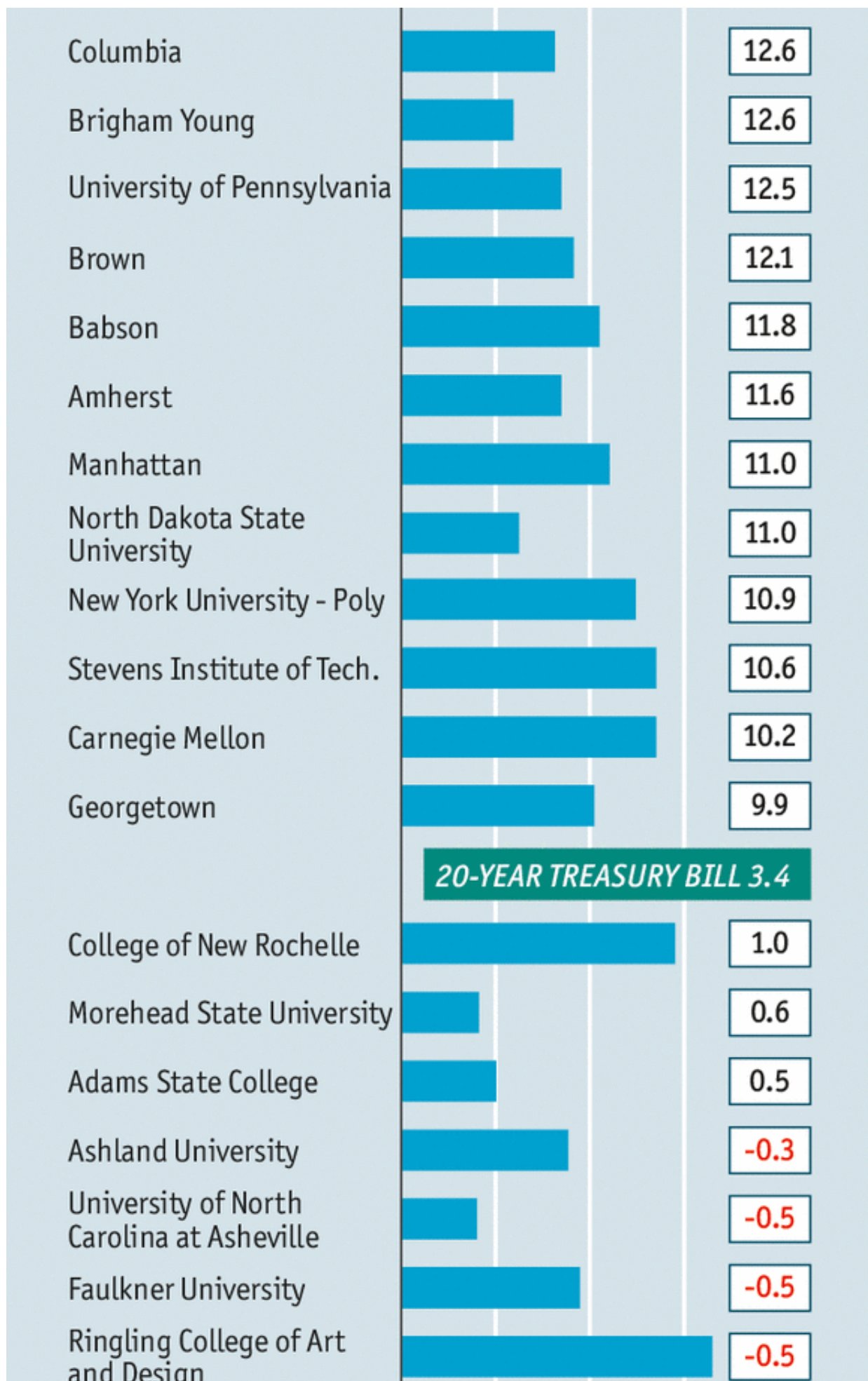


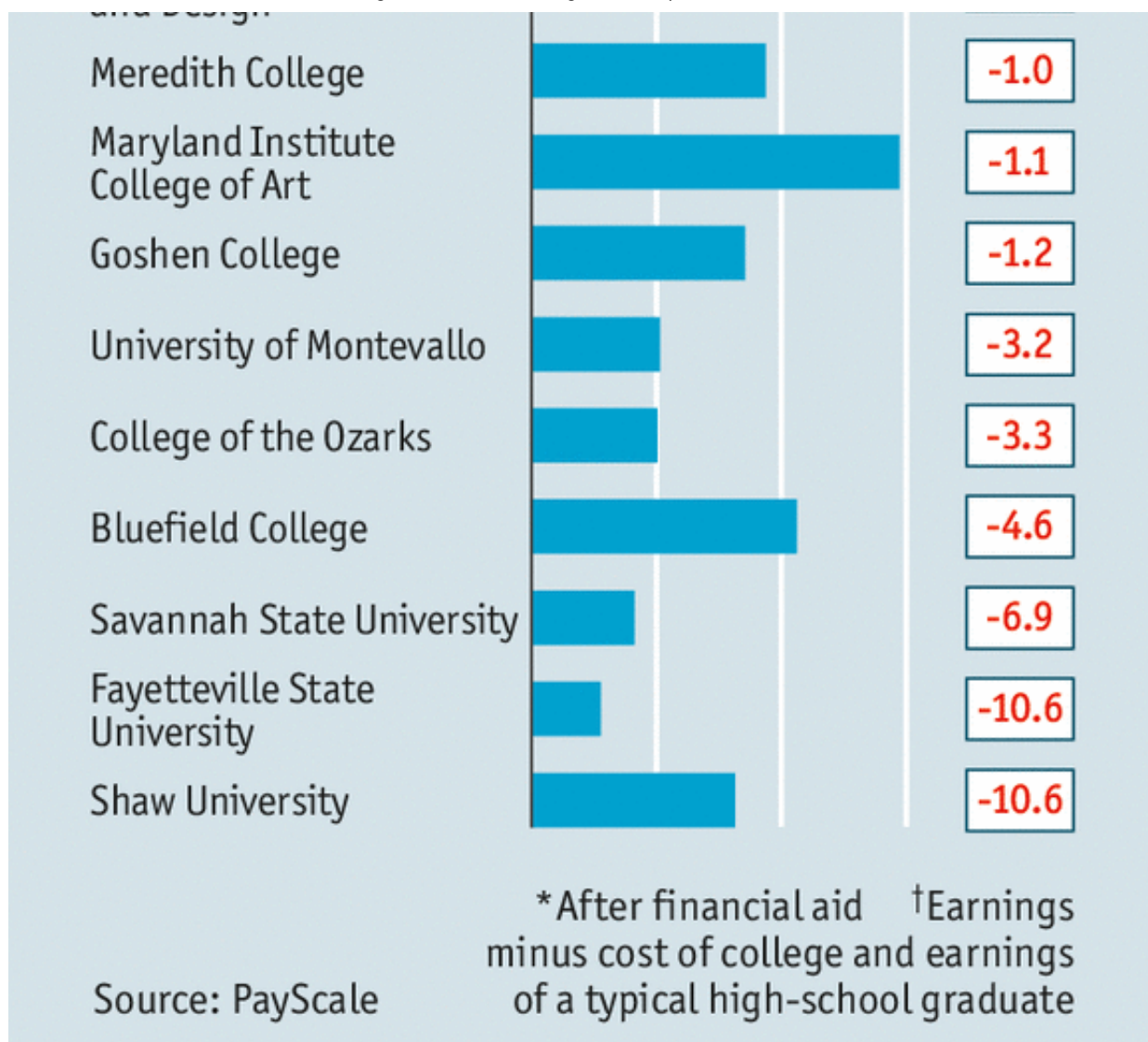
Frustrated, she took the gutsy decision to go back to the same college and study something more pragmatic. She majored in finance, and now has a good job at an investment consulting firm. Her debt has swollen to \$65,000, but she will have little trouble paying it off.

As Ms Styles's story shows, there is no simple answer to the question "Is college worth it?" Some degrees pay for themselves; others don't. American schoolkids pondering whether to take on huge student loans are constantly told that college is the gateway to the middle class. The truth is more nuanced, as Barack Obama hinted when he said in January that "folks can make a lot more" by learning a trade "than they might with an art history degree". An angry art history professor forced him to apologise, but he was right.

College graduates aged 25 to 32 who are working full time earn about \$17,500 more annually than their peers who have only a high school diploma, according to the Pew Research Centre, a think-tank. But not all degrees are equally useful. And given how much they cost—a residential four-year degree can set you back as much as \$60,000 a year—many students end up worse off than if they had started working at 18.







PayScale, a research firm, has gathered data on the graduates of more than 900 universities and colleges, asking them what they studied and how much they now earn. The company then factors in the cost of a degree, after financial aid (discounts for the clever or impecunious that greatly reduce the sticker price at many universities). From this, PayScale estimates the financial returns of many different types of degree (see chart).

Hard subjects pay off

Unsurprisingly, engineering is a good bet wherever you study it. An engineering graduate from the University of California, Berkeley can expect to be nearly \$1.1m better off after 20 years than someone who never went to college. Even the least lucrative engineering courses generated a 20-year return of almost \$500,000.

Arts and humanities courses are much more varied. All doubtless nourish the soul, but not all fatten the wallet. An arts degree from a rigorous school such as Columbia or the University of California, San Diego pays off handsomely. But an arts graduate from Murray State University

in Kentucky can expect to make \$147,000 less over 20 years than a high school graduate, after paying for his education. Of the 153 arts degrees in the study, 46 generated a return on investment worse than plonking the money in 20-year treasury bills. Of those, 18 offered returns worse than zero.

Colleges that score badly will no doubt grumble that PayScale's rankings are based on relatively small numbers of graduates from each institution. Some schools are unfairly affected by the local job market—Murray State might look better if Kentucky's economy were thriving. Universities that set out to serve everyone will struggle to compete with selective institutions. And poor colleges will look worse than rich ones that offer lots of financial aid, since reducing the cost of a degree raises its return.

All these caveats are true. But overall, the PayScale study surely overstates the financial value of a college education. It does not compare graduates' earnings to what they would have earned, had they skipped college. (That number is unknowable.) It compares their earnings to those of people who did not go to college—many of whom did not go because they were not clever enough to get in. Thus, some of the premium that graduates earn simply reflects the fact that they are, on average, more intelligent than non-graduates.

What is not in doubt is that the cost of university per student has risen by almost five times the rate of inflation since 1983, and graduate salaries have been flat for much of the past decade. Student debt has grown so large that it stops many young people from buying houses, starting businesses or having children. Those who borrowed for a bachelor's degree granted in 2012 owe an average of \$29,400. The Project on Student Debt, a non-profit, says that 15% of borrowers default within three years of entering repayment. At for-profit colleges the rate is 22%. Glenn Reynolds, a law professor and author of "The Higher Education Bubble", writes of graduates who "may wind up living in their parents' basements until they are old enough to collect Social Security."

That is an exaggeration: students enrolling this year who service their debts will see them forgiven after 20 years. But the burden is still heavy for many. It does not help that nearly a third of those who take out such loans eventually drop out of college; they must still repay their debts. A third transfer to different schools. Many four-year degrees drag on longer, and so cost more. Overall, the six-year graduation rate for four-year institutions is only 59%.

The lousy national job market does not help, either. A report by McKinsey, a consultancy, found that 42% of recent graduates are in jobs that require less than a four-year college education. Some 41% of graduates from the nation's top colleges could not find jobs in their chosen field; and half of all graduates said they would choose a different major or school.

Chegg, a company that provides online help to students, collaborated the study. Dan Rosensweig, its boss, says that only half of graduates feel prepared for a job in their field, and only 39% of managers feel that students are ready for the workforce. Students often cannot write clearly or organise their time sensibly. Four million jobs are unfilled because jobseekers lack the skills employers need.

Grading the graders

For all their flaws, studies like PayScale's help would-be students (and their parents) make more informed choices. As Americans start to realise how much a bad choice can hurt them, they will demand more transparency. Some colleges are providing it, prodded by the federal government. For example, the University of Texas recently launched a website showing how much its graduates earn and owe after five years.

"Opportunity", said Mr Obama on April 2nd, "means making college more affordable." In time, transparency and technology will force many colleges to cut costs and raise quality. Online education will accelerate the trend. In 2012, 6.7m students were taking at least one online course. Such courses allow students to listen to fine lecturers without having to pay for luxurious dormitories or armies of college bureaucrats. They will not replace traditional colleges—face-to-face classes are still valuable—but they will force them to adapt. Those that offer poor value for money will have to shape up, or disappear.

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