

Is the return to education the same for everybody?

While a four-year college degree is financially beneficial for most people, it is not necessarily the best option for everyone

Keywords: education, human capital, earnings, college major

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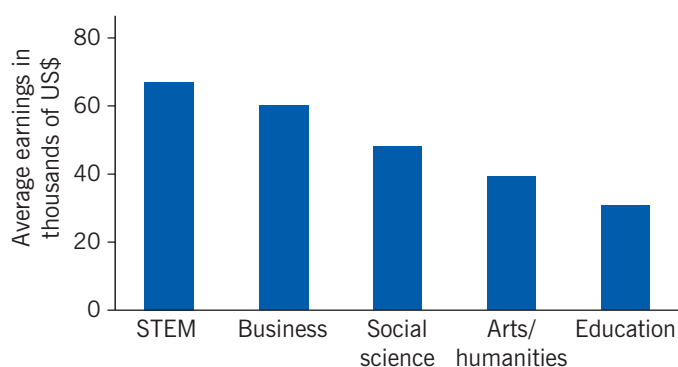
A postsecondary degree is often held up as the one sure path to financial success. But is that true regardless of institutional quality, discipline studied, or individual characteristics? Is a college degree always worth the cost? Students deciding whether to invest in college and what field to study may be making the most important financial decision of their lives. The return to education varies greatly by institutional quality, discipline, and individual characteristics. Estimating the returns for as many options as possible, and making that information as transparent as possible, are paramount in helping prospective students make the best decision.

KEY FINDINGS

Pros

- ⊕ College is worth the investment for most people, most degrees, and most levels of debt.
- ⊕ Money does not capture the full value of a postsecondary education.
- ⊕ Rising college costs underscore the need for increased transparency in the economic value of a degree to students.
- ⊕ Estimates from the literature can be used to inform policies such as differential tuition and student loans.

Average annual earnings in the US vary by college discipline



Note: STEM is science, technology, engineering, and mathematics.

Source: Author's calculations from the 2012 American Community Survey.

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World of Labor

Cons

- ⊖ Returns across different fields of study differ substantially.
- ⊖ Evidence is mixed on the differences in returns across institution types.
- ⊖ Students are increasingly pursuing degrees with less public benefit and greater financial benefit due to increased tuition debt.
- ⊖ Estimating the return to education is difficult due to unmeasured ability.
- ⊖ The decision to attend college and what field to study are far from random: smarter people are more likely to attend college and to attend more selective institutions.

AUTHOR'S MAIN MESSAGE

Education remains the most certain path to financial stability. However, while this is likely true for most people, the benefits of a four-year degree may not outweigh the costs for everyone, especially in light of high tuition costs and different rates of return for different college degrees. Estimating the returns for as many options as possible and making that information as transparent as possible for prospective students are important for informed decision-making. Understanding how the returns differ is key to efficient pricing of tuition and has implications for relatively new policy instruments, such as government support for differential tuition—charging more for degrees with higher rates of return.