The cost and financial value of college: Experts say evidence shows the payoff from college education remains high

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What's the right price for a college education? And what is its value?

Those are crucial questions at a time of rising student debt and high unemployment. But a group of scholars and policymakers at an MIT forum on Thursday suggested that one thing about college remains clear: Expensive though it can be, higher education pays off for Americans as a whole.

Indeed, the much-discussed idea of an "education bubble"—that college costs have soared too high to make a degree worthwhile—is a "dangerous myth that leads people to make bad choices," said David Autor, an MIT labor economist who has extensively studied the relationship between education and earnings.

Instead, Autor said, the best evidence shows that a college degree leads to a lifetime earnings increase of $250,000 to $300,000, even after subtracting the cost of higher education. Those returns, Autor noted, apply to graduates regardless of their undergraduate majors: Humanities students benefit just as science, engineering or business students do.

And all evidence suggests education remains a key to social mobility in America, noted Janice Eberly, assistant secretary for economic policy and chief economist in the U.S. Department of Treasury. Without a college degree, Eberly pointed out, people in the bottom 20 percent of America's income distribution have a 45 percent chance of remaining in that economic stratum. But with a college degree, people from those households have a roughly equal chance of ending up in any of the other four quintiles of income.

Moreover, Eberly said, "These benefits accrue not only to individuals but society more broadly," by tapping into a deeper pool of talent.

The power of writing clearly

Thursday's event, "Economics of Higher Education," took place before an audience of about 200. It was sponsored by MIT's Department of Economics and School of Humanities, Arts, and Social Sciences.

The forum's moderator and organizer, James Poterba, the Mitsui Professor of Economics at MIT, noted in his introductory remarks that higher education is "an extremely important sector of the U.S.

economy," representing about 3.5 percent of the national GDP—but one with an even larger impact on the country's fortunes, given its centrality of knowledge and its impact on innovation-based growth to the economy.

Yet excellence in higher education requires a solid foundation of secondary education, observed Claudia Goldin, an economist at Harvard University. And while high school graduation rates in the United States soared in the first half of the 20th century, they have been virtually stagnant since about 1970.

"College completion just cannot advance much when high school completion does not," Goldin said.

For those who do go to college, the amount of student-loan debt they accrue has increased, as Autor acknowledged: At graduation, today's public-university graduates hold $32,000 in student debt, on average, while graduates of private, nonprofit schools owe $46,000, on average. Going into debt always entails risk, Autor said, while asserting that the worst-case scenarios, of students with massive debt and low income, attract disproportionate media attention.

In reality, virtually all college students, Autor said, will emerge with useful work-force skills.

"There are many things you learn alongside technical skills in university that are just as important," Autor added. "If you learn how to write clearly, if you learn how to think analytically, if you learn how to express yourself in a way that people can understand and is persuasive, those are generically powerful skills. You can get those from a philosophy degree or an English degree."

The costs of running an institution

To be sure, the panelists agreed, higher education's cost issues are real and, for most students, related to the funding problems faced by America's public universities. (Only 18 percent of college students, Eberly noted, attend private, nonprofit institutions such as MIT.) Yet state and local funding for public universities, which was about 60 percent of those institutions' budgets in the 1980s, is only about 40 percent today. As a result, tuition and fees now account for 40 percent of public universities' expenses, up from 20 percent in the 1980s. The federal government, Eberly said, has tried to compensate by increasing grant and low-interest loan programs.

The final speaker on the panel, MIT Executive Vice President and Treasurer Israel Ruiz, gave the audience a look under the hood of MIT's finances, as a case study on college costs. To be sure, Ruiz said, MIT's situation is not the same as that of many public universities; the Institute is "in a very privileged position," he noted.

As Ruiz noted, MIT's tuition and fees have grown by 4.2 percent annually since 1960, compared to the 2.5 percent annual growth of the Consumer Price Index, a popular inflation measure. However, financial aid to students has grown 7.5 percent annually over the same period.

Some of the biggest costs the Institute incurs, Ruiz said, come from investments in state-of-the-art research labs. All told, the Institute would run an annual deficit of 39 percent, he said, but for the largesse of donors—often alumni—enabling MIT to run surpluses of roughly 5 percent. In this way, he pointed out, some of the returns on education that MIT graduates experience are directed back to the Institute as future investments in education.

"Part of that value … has been given back to this institution," Ruiz said.

Ruiz also acknowledged that he was chosen this week by MIT President

L. Rafael Reif as a co-chair of the new Institute-Wide Task Force on the Future of MIT Education, a subject connected with the cost of, and access to, college courses. Ruiz said he was "privileged" to be a part of the effort and hoped MIT could "help define the frontier" of online learning.

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