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What's your college tuition really worth?

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Written by

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As your kids head off to college and tuition bills start arriving in your mailbox, you'll probably start to question whether the costs you're incurring are worth it. Tens of thousands of dollars for your wards to listen to professors ramble and to party on the weekend – are you kidding?

Well, no. Thinking about college in terms of expenses misses the point—and I'm not just saying that because I'm one of the professors who'll be teaching your kids.

College isn't an expense: It's an investment.

We're not arguing simple semantics here. Paying for college is not like paying for a car. A car payment is an expense because, as you use the car, its value declines and eventually it gets so worn down that you must replace it with a new car.

College tuition, on the other hand, is an investment, and paying for college is like putting money into a retirement account: Over time the value rises and eventually starts generating more income for you than the money you put into it. The proper way to evaluate an investment is to compare what it costs to the income it will generate for you in the future.

Take this simple example: According to the College Board, tuition and fees in 1977 at the average 4-year private college cost \$9,700 per year (in today's dollars).

To figure out what that degree is worth today, we use a concept called net present value where you measure the amount of cash you would need to have in-hand to make you just as well off as the combination of present costs and future incomes associated with an investment.

Combining the College Board data with earnings and employment data from the Statistical Abstract of the United States, that \$9,700 per year in college tuition—when offset by the increased future earnings that come from having a college degree—was worth the same as \$500,000 in cash (in today's dollars) to the average 18 year old.

That's quite an investment. And it gets better.

By 2008, tuition and fees at the average 4-year college rose to over \$25,000 per year but the net present value rose to just under \$1 million. This means that, even after deducting the increased cost of a college education and adjusting for overall inflation, the value of a college education today is almost twice what it was in 1977.

That college-educated workers earn more than those with just a high school diploma is only part of the financial benefit of a college degree. Historically, the unemployment rate for high school graduates is between two and three times that of college graduates, and the average annual wage growth and employer-paid benefits is greater for college-educated workers. These factors also contribute to the net present value of a college education.

But be warned: Not all college degrees are equal. Data collected by Payscale.com reveals the median mid-career salary for college graduates who did not subsequently earn graduate degrees. The highest salaries went to engineering (\$90,000 to \$155,000), mathematics (\$99,000), and economics majors (\$95,000). The lowest salaries went to child and family studies (\$40,000), elementary education majors (\$44,000) and social work majors (\$44,000).

This means that the net present value of a private four-year college education ranges from a high of around \$2 million for engineering majors to a low of \$90,000 – i.e., almost a break-even proposition – for social work majors.

However, students interested in these less lucrative fields should take note: the lower tuition of a public university helps the lower earning majors far more than the higher earning majors. Holding quality of education constant, the average social work degree from a four-year private university is worth \$90,000 versus \$170,000 from a four-year public university, while the average engineering degree is worth about the same from both institutions.

Just remember to keep all this in mind as the bills roll in and loan repayments begin going out. College is an investment – and a worthwhile one at that.

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