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COLLEGE STILL PAYS OFF, BUT NOT FOR EVERYONE

Higher-education degree boosts wages for most people, but growing subset of graduates aren't seeing return on their investment

By Josh Mitchell
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Investing in a college degree still pays off for most students with higher salaries and greater wealth, but in recent years it has become riskier, splitting graduates more widely into haves and have-nots.

"It just has not been the blanket guarantee of following the same path to prosperity that the earlier generations followed," says economist William Emmons of the St. Louis Federal Reserve.

There are three related shifts causing economists to re-examine the returns of college. First, the wages of college graduates have remained mostly flat this century, after inflation. Second, the cost of attending college has soared. Third, even with higher salaries, significant numbers of college graduates in recent years are failing to build the kind of wealth that previous generations did.

The question of higher education's value has gained urgency because so many more Americans are going to college than before, and because they are paying far more to do so. The share of Americans between ages 25 and 29 with a bachelor's degree rose to 37 percent last year from 29 percent in 2000, Education Department data show.

College and graduate-school tuition has risen at triple the rate of inflation this century, according to Labor Department data. Students who borrowed now leave college with more than \$30,000 in debt, on average, and a small but growing number is carrying \$50,000 and beyond, according to a report last year by the Brookings Institution.

College graduates still earn far more than those who never got an education beyond high school. Americans with a bachelor's degree – but not a graduate degree – earned an average \$77,239, nearly \$32,000 more than the average earnings of workers with only a high-school diploma, according to the New York Federal Reserve.

That premium remains near an all-time high, after inflation. College graduates also are far more likely to have a job than nongraduates.

And yet, while college grads' inflation-adjusted wages rose steadily throughout the 20th century, they have been flat since about 2001. Several factors are likely to blame.

After the tech bust of the early 2000s, the economy demanded less of the type of cognitive skills that college graduates typically have, according to a paper published in the Journal of Labor Economics by economists Paul Beaudry, David A. Green and Benjamin Sand.

As a result, college graduates started taking up jobs previously held by those who went only to high school, pushing down wages for high-school graduates. College grads thus maintained an earnings advantage over nongrads, but their real wages didn't rise.

New York Fed data show roughly four in 10 recent college graduates – those between ages 22 and 27 – are in jobs that typically don't require a degree. And other research shows that during the recession, as unemployment soared, employers increasingly required bachelor's degrees for jobs that previously required only a high-school education.

The result: Many students ended up paying far more for higher education than previous generations but may not have gotten the type of income boost they expected.

Research published in 2014 by the New York Fed shows that among college graduates, the bottom 25 percent of earners made roughly the same or less than the typical high-school graduate without a degree.

"Although higher education may be financially advantageous on average, the flattening of returns as costs have continued to rise suggests that college may be an unfavorable financial investment for rising numbers of individuals," economist Robert Valletta of the San Francisco Fed wrote in a 2016 working paper put out by the National Bureau of Economic Research.

Then there is wealth, which measures a person's assets – such as savings in a bank account, the value of a home and any stock ownership – minus any debts, such as a mortgage, student loans and credit-card debt.

College graduates still have more wealth than nongraduates, as they have had for decades. In 2016, the typical household headed by someone with a bachelor's degree but no graduate degree had more than twice as much wealth as the typical household headed by a nongraduate, according to a St. Louis Fed paper released in January, which analyzed data from the Fed's Survey of Consumer Finances.

But that wealth premium has declined substantially for younger generations of college graduates, particularly those born in the 1980s. Among some demographic groups, there is little or no wealth advantage at all.

The typical black family headed by someone with a college degree – but no graduate degree – born in the 1970s and 1980s barely had any more wealth than the typical black household headed by a nongraduate. Hispanic households of the same age groups have only a small wealth premium.

The paper concludes: "Among families born in the 1980s, the college wealth premium weakens to the point of statistical insignificance with the single exception of white bachelor's-degree holders, which remains positive but much smaller than that enjoyed by previous cohorts."

One caveat: The wealth premium for young college graduates today may increase over time, as their earnings continue to rise throughout their careers and as they pay off student debt. The St. Louis Fed's Mr. Emmons says that even accounting for age differences among all college graduates, trends suggest the college-wealth premium has declined.

Mr. Emmons says his intent isn't to question whether higher education is a good thing. But his data suggest that costs must be a bigger part of the discussion over whether college is worth it.

David Deming, a Harvard University economist who believes everyone can benefit from college and has advocated for tuition-free higher education, says the declining wealth premium may be related to other factors. For example, Americans are taking longer to get married, have children and buy homes than previous generations.

Young college graduates today, he says, will likely accumulate a decent amount of wealth – they just may take longer to do it. In that sense, he believes the college wealth premium will remain intact.