

The Benefits of Education

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An article by James Altucher, a columnist of the *Financial Times*, this past week essentially asserted that college and university education is a waste of time, that students would be better off by working rather than attending classes, or by using the money that went to tuition to travel instead. ("A mind is a terrible thing to waste but so is all the money that is being flushed down the toilet in the elitist quest for a good education. The best education is falling on the ground and getting a few scrapes. ... Just don't get robbed for four straight years [by going to college]").

Two days later a columnist of the *Wall Street Journal*, David Wessel, argued just the opposite, that the benefits of higher education have never been higher, at least in the United States, and that the puzzle is why more Americans do not finish high school and college. Who is right? The evidence is overwhelming that Wessel is right about the benefits of education, and that Altucher does not know the subject he is writing about.

It is well documented that the average earnings premium from a college education in the United States increased from about 40 percent in the late 1970's to about 80 percent at present. Not everyone does well financially from going to college, or badly by not going—Bill Gates is an obvious but extreme example of a college dropout—but the average person who does go has far better prospects for earnings, employment, and occupation than the average person who stops schooling after finishing high school.

The economic benefits from completing high school also went up relative to those to high school dropouts, although they did not increase as much as the benefits from college. A similar picture holds for Great Britain and many other countries, although the changes elsewhere have been smaller than in the United States. Nor is this all. Research increasingly demonstrates that education improves performance in virtually every aspect of life.

Educated persons on the whole are healthier, are better at investing in their children, have more stable marriages, smoke much less and in general have much better habits, commit many fewer violent crimes, are better at managing their financial resources, and at adjusting to unexpected shocks, such as hurricane Katrina. It might be thought that these correlations between education and various benefits, including earnings and health but not only these, are the result of abler persons, such as those with higher IQ's, and healthier persons getting more schooling rather than the effects of schooling. More able and healthy persons do have greater amounts of schooling, but literally hundreds of studies have tried to correct for these differences. They find that even after making these and other corrections, the effects of education on various monetary and non-monetary benefits remain very large.

An additional finding is also important. Not only have the earnings benefits of education increased during the past 30 years, but so too have health benefits, the advantages of education in raising children, and the benefits of education in managing one's assets. The growing gains from education are pervasive and not limited to earnings, or to economic benefits narrowly conceived. This suggests that the forces producing the greater advantages are also broad and general rather than narrow and specific. Three such broad forces have been identified.

Probably most important is that the technological progress of the past 30 years has increased the demand for educated and other skilled persons. Examples include the growth of the Internet and the personal computer, developments in biotech, innovations in financial instruments, and rapid progress in technologies that improve the health of adults. Globalization and the economic development of countries like India and China is a second factor that raised the returns to skill, for global growth increased the worldwide demand for products and services that use highly educated and other more skilled inputs. A third general force is due to the decline in the cost of plant, equipment, and other physical capital, in part the result of lower real interest rates. Educated and other skilled manpower is complementary with physical and financial capital, whereas low skilled labor is a substitute for such capital. Hence a cheapening of physical and financial capital would raise the demand for educated inputs relative to the demand for the less educated.

Estimates indicate that in the United States the average rate of return on a college education in the form of higher earnings is about 10 percent. The average return is lower for students who fail to complete four years of college, and is higher for those who do graduate work. If the benefits of better health, better skills at raising children, better financial management, and so forth are added to the benefits of higher earnings, the total rate of return on college would rise to 15 percent or more. Should not such high returns have induced most persons who finish high school to go on for a college education, and encourage additional boys and girls to finish high school? Up to a point they have, so it all depends on whether one looks at the glass as half empty or half full.

Since earnings and other benefits of a college education began to increase almost 30 years ago, the fraction of high school graduates who go to college has also increased greatly, and the increase has been pervasive among different genders and racial groups. Higher enrollments are found for white males and females, African American males and females, and Hispanic males and females. Over 60 per cent of high school graduates now get some higher education, one of the highest percents in any country. True, many of these college entrants, especially men, fail to finish college, but at least they show awareness of the advantages of a college education.

The real failure of the American education system compared to other countries is in the large numbers who drop out of high school. What is even worse from the perspective of equalizing opportunity is that the fraction dropping out of high school, some 20–25 percent of high school students, is concentrated among African Americans and other minorities. Surprisingly, this fraction has not declined over time by very much, despite the huge increase in the returns from greater amounts of schooling. I do not have a good explanation for the lack of response in the high school graduation rate to the greater benefits of education, except that the American family started deteriorating rapidly only a little earlier than the returns to education began to rise rapidly. The reduced preparation for schooling, especially among boys in the many families without fathers, was offsetting

the increased benefits from additional schooling.

How to better prepare students so that more of them want to complete high school and attend college, and benefit from their schooling experience? It would be important to help stabilize African American and other families. In an earlier post (March 12 of this year) I discussed a subsidy to couples if they get and stay married. That might be an option, especially if the subsidy to marriage was greater to lower income couples, although I give various arguments in that post why such a subsidy may not be desirable. Perhaps head start school programs for children from broken families would be a better approach. Legalizing drugs would contribute, so that students would not drop out of high school drawn by the (slim) prospects of making a lot of money through the sale of drugs.

The quality of public schools attended by most minority students is low—although teachers at these schools face formidable obstacles—so school vouchers and other ways to increase competition among schools for students would be helpful.