

The Benefits of Education

Gary Becker

2007.4.22

Two views

- James Altucher (*FT*): college education is a waste of time and money
- David Wessel (*WSJ*): benefits of higher education have never been higher
- Who is right?
“Evidence is overwhelming that Wessel is right”

Earnings premium

- Average earnings premium from college education in the US increased from 40% in the late 1970s to about 80% at present
- The average person who does go to college has better prospects for earnings, employment, and occupation
- The same is true for those completing high school relative to high school dropouts

Other benefits

- healthier
- better at investing in their children
- more stable marriage
- smoke less
- better habits
- commit fewer crimes
- better at managing financial resources and at adjusting to unexpected shocks

Correlation and Causation

- correlation does not imply causation
- After making corrections, the effects of education on various monetary and non-monetary benefits remain very large

Why benefit?

- Technological progress has increased the demand for educated and skilled persons
- Globalization and the economic development of China and India also raised the returns to skill
- The decline in the cost of plant, equipment, and other physical capital. Educated and skilled manpower is **complementary** with physical and financial capital, while low skilled labor is a **substitute** for such capital

Rate of returns

- In the US, the average **rate of return** on a college education in the form of higher earnings is about 10%
- Even higher for those who do graduate work
- If other benefits are included, the total rate of return would rise to 15% or more
- This explain why more high school graduates go to college

demand for skilled labor

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.