

The Fundamental Worth of Higher Education¹

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A mind is a precious thing to waste, so why are millions of America's students wasting theirs by going to college?"² Bill Gross, co-founder of the Pacific Investment Management Company, wrote this in a column last summer. A few months earlier, Peter Thiel, the co-founder of PayPal, announced he would pay \$100,000 each to twenty young people to drop out of college and start a tech-based business.³

Although Gross and Thiel question the fundamental worth of a college education, many more Americans wonder whether a college education is affordable. President Obama pointedly criticized the rising rate of college tuition in his State of the Union address in January. Almost every state in our union is struggling with the question of college affordability.

More than 25 years ago, Pat McPherson defended the worth of higher education against the claims of unreasonably high tuition lodged by Secretary of Education Bill Bennett.⁴ The rampant inflation of the 1970s had created an acute economic challenge for higher education, leading Pat to pen an op-ed in 1985 for the *New York Times* that began with two sentences that could just as sensibly be written today: "College

1 Read 20 April 2012, as part of a symposium on higher education.

2 See column: <http://www.pimco.com/EN/Insights/Pages/School-Daze-School-Daze-Good-Old-Golden-Rule-Days.aspx> (retrieved 19 March 2011).

3 See press release: <http://www.thielfellowship.org/news/tf-press-releases/> (retrieved 19 March 2012).

4 William J. Bennett, "Our Greedy Colleges," *New York Times*, 18 February 1987. <http://www.nytimes.com/1987/02/18/opinion/our-greedy-colleges.html?src=pm> (retrieved 19 March 2012).

education has come under attack by parents and Government officials who feel that it costs too much. It is true that education is worryingly expensive, but it is costly for a reason or, rather, a set of reasons—that should make sense to anyone who cares about the future of our country.”⁵ Fortunately, Pat insightfully defended the value of higher education. Unfortunately, her op-ed did not convince everyone for decades to come. Many Americans are still posing some version of the value-added question: Does higher education provide benefits commensurate with its cost?

The dominant way of answering this question is to tally the added income benefits of a university degree to graduates, subtract the added costs, and see whether the benefits exceed the costs. This way of determining whether a university education is worthwhile is far from comprehensive. I have argued that, to know whether a university education is worthwhile, we need to recognize and appreciate its tripartite mission: increasing educational opportunity, optimizing creative understanding, and contributing the fruits of that understanding to society.

But this valuable mission would be seriously undermined were a college education too expensive for anyone but affluent Americans. Responsiveness to broad public concerns therefore requires that we consider whether the income benefits of college to individuals outweigh the costs.

The reliable answer, based on the best data, is that a college education has paid off—handsomely—for most graduates, and can be expected to do so for years to come.⁶ The average American with a college education earns a lot more over her lifetime than the average high school graduate, even after subtracting the considerable cost of college. The best recent study concluded that college is, “expensive, but a smart choice.”⁷ It showed that “college graduates are making on average almost double the annual earnings of those with only a high

5 Mary P. McPherson, “Why College is So Expensive,” *New York Times*, 4 June 1985.

6 See, for example, Sandy Baum, Jennifer Ma, and Kathleen Payea, “Education Pays 2010: The Benefits of Higher Education for Individuals and Society” (College Board Advocacy & Policy Center, 2010); Anthony P. Carnevale, Jeff Strohl, and Michelle Melton, “What’s It Worth?: The Economic Value of College Majors” (Georgetown University Center for Education and the Workforce, 2011); Michel Greenstone and Adam Looney, “College: Expensive, but a Smart Choice,” *Los Angeles Times*, 15 August 2011; Kevin Carey, “Bad Job Market: Why the Media is Always Wrong about the Value of a College Degree,” *The New Republic* blog (retrieved 20 September 2011).

7 Greenstone and Looney, “College: Expensive, but a Smart Choice.” <http://articles.latimes.com/2011/aug/15/opinion/la-oe-looney-greenstone-is-college-wo20110815> (retrieved 21 September 2011).

school diploma. And this advantage is likely to stick with them over a lifetime of work.”⁸

Moreover, since 1950, “the investment in college has a rate of return of a whopping 15.2% a year on the \$102,000 investment for those who earn [only] the average salary for college graduates”⁹ (Figure 1). Think about this rate of return for a moment: 15.2%. It compares, for example, to a 6.8% return from the stock market, 2.3% from gold, 2.2% from long-term treasury bills, and a shockingly low 0.4% from housing.

It is equally striking—and significant—that, even in the depths of the Great Recession, the unemployment rate of college graduates was less than half that of high school graduates. It never exceeded 5.1%.¹⁰

College is a *smart economic choice*. But it is a smart choice only for *those who have the choice*. How can colleges help to ensure that every talented and hardworking student is afforded this choice?

The issue of college access is near and dear to Pat’s heart. She worked diligently to address it as Bryn Mawr’s president, and as Mellon Foundation vice president. The more affordable we make our colleges to talented, hardworking young people from both low- and middle-income families, the more we contribute to opportunity.¹¹

For many years the question of access has focused on recruiting qualified students from the lowest income groups, often defined by the proportion of students who qualify for Pell grants, which have a low-income cut-off.¹² But our concern must not stop with low-income students. We also need to tend to middle-income students, whose families increasingly worry that higher education is out of their reach.

We know that educational attainment at the K-12 level varies with income in this country, and we therefore expect higher income groups

8 Ibid.

9 Ibid.

10 Labor Force Statistics from the Current Population Survey, U.S. Department of Labor, Bureau of Labor Statistics.

11 We also know that the economic returns of some majors, such as English and education, are far smaller than those of others, such as economics and engineering. But even with these qualifications, individuals still stand to gain—both economically and non-economically—from graduating from college. For example, see Carnevale, Strohl, and Melton, “What’s It Worth?”

12 See, for example, Michael S. McPherson and Morton Owen Shapiro, “Does Student Aid Affect College Enrollment? New Evidence on a Persistent Controversy,” *American Economic Review* 81.1 (1991): 309–18; idem, “The Student Finance System for Undergraduate Education: How Well Does It Work?” *Change* 23.3 (1991): 16–22; idem, “Financing Undergraduate Education: Designing National Policies,” National Center for Postsecondary Improvement, 1997; idem, eds., “College Access: Opportunity or Privilege?” (New York: The College Board, 2006).

to be disproportionately represented at selective universities. But some findings might surprise you, as they did me.

Start with the top 20% income group or quintile of families with college-age students in this country (Figure 2). Of all highly qualified students, 36% come from the top income quintile. So we might expect that 36% of students in highly selective universities would be in the top income group. Yet, as of 2003, the proportion of students from the top quintile on highly selective college campuses was 57%.

This means that, controlling for qualifications, the wealthiest 20% of American families are over-represented by more than double their percentage of the population: an immense margin of 21% (Figure 3). As you can see, every other income group is under-represented. But most striking is that, taking qualifications into account, middle-income students are the most under-represented. Students from the lowest 2 quintiles—families earning less than about \$41,000—are under-represented by 4.3%. Students from the middle and second-highest quintiles—families earning \$41,000 to \$94,000—are under-represented by a 16.8%.

We all know numbers can't tell the human story of why increasing access is so important. The value of broadening opportunity becomes vivid when we consider the talented students who have excelled educationally against the odds.

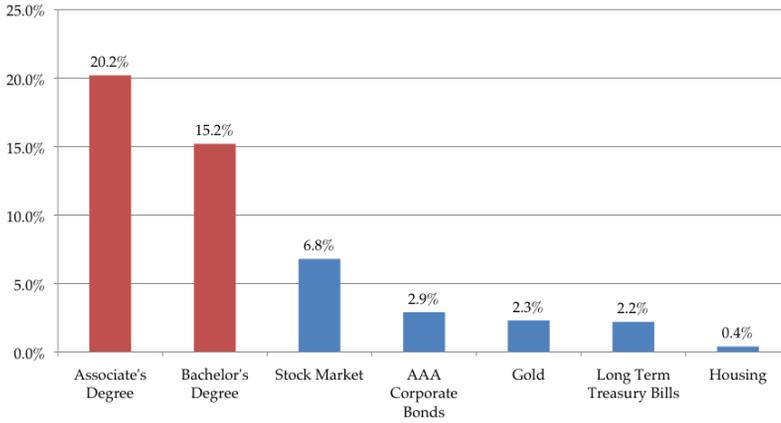
Earlier this month, I welcomed Justice Sonia Sotomayor of the Supreme Court to Penn, where she spoke at the dedication of our new Penn Law building. The first Latina, and the third woman, to sit on our nation's highest court, Justice Sotomayor was moved to tears when we announced a scholarship in her honor. She said financial aid made it possible for her to go from living in a housing project in the Bronx with her widowed mother to graduating from Princeton and Yale and realizing the American Dream.

We all know students like Sotomayor, students who are immensely talented and hardworking but require a great deal of financial aid to gain access to the colleges they have chosen. If colleges are serious about increasing educational opportunity in this country, then we need to lower our costs to *all* students from families with demonstrated financial need.

Note that I did *not* say we need to lower our *sticker price*. The single most important message people should understand about the worth of a college education is that it isn't about the sticker price of tuition. It is about *affordability*.

To explain what this means in practice, I will refer to what Penn has done to increase affordability, because that is what I know best.

College as an Economic Investment



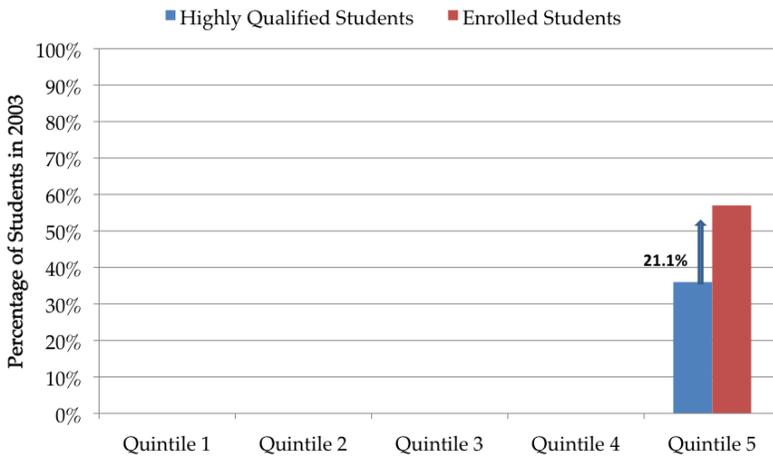
Note: Asset returns are geometric averages since 1950

Source: Gary Burtless and Adam Looney, "The Private Economic Value of College: The Rising Payoff to College and the Sluggish Response in College Enrollment." Presentation for "The Economy and Higher Education," The Brookings Institution, January 24, 2012.



FIGURE 1. Economic investment.

Opportunity: Over-Representation at the Top

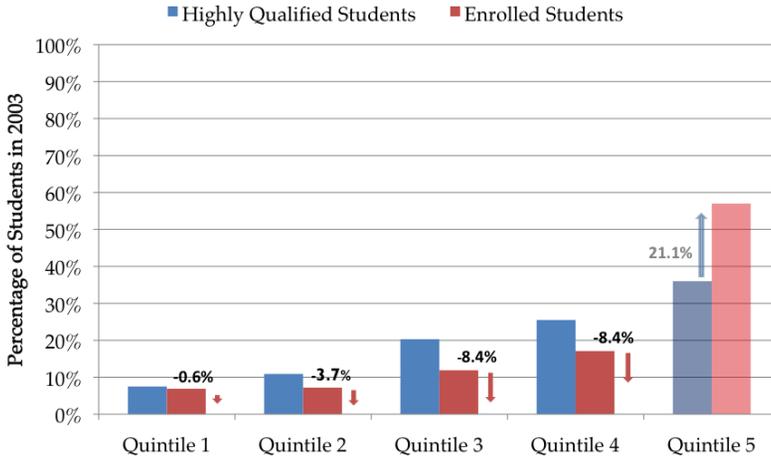


Source: COFHE, 2003



FIGURE 2. Over-representation.

Opportunity: Under-Representation throughout the Middle

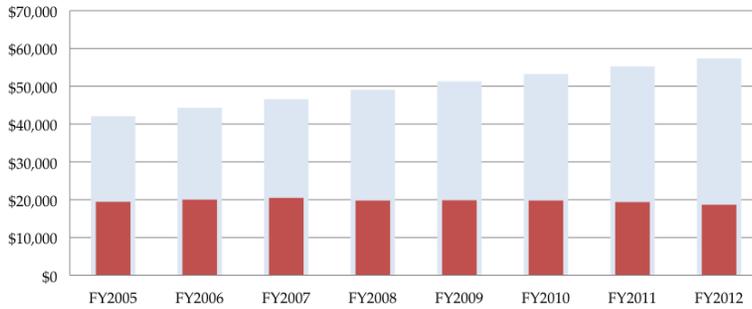


Source: COFHE, 2003



FIGURE 3. Under-representation.

Opportunity: Need-blind Admissions and Need-based Financial Aid



■ Total Undergraduate Cost of Attendance at Penn ■ Average Net Cost for Aided Students

	2004	2011
Average Net Cost for Aided Students	\$19,400	\$18,700



FIGURE 4. Need-blind Admissions.

Since 2004, Penn has increased its undergraduate aid budget by more than 100%. In 2007, we instituted an all-grant financial aid policy, doing away with loans that left undergraduates facing a mountain of debt after earning their degrees. Because of these changes, the average net cost of a Penn education for all students with financial need has, in fact, *decreased* over the past seven years (Figure 4). Only the wealthiest families—those with an income of \$200,000 and above—pay the full sticker price of tuition. Families with incomes less than \$90,000 pay no tuition at all; and those with incomes of less than \$40,000 pay no tuition, room, or board. All middle- and low-income students can graduate debt-free. This, in turn, opens a world of career possibilities to Penn graduates who otherwise would be pressured by financial circumstances to pursue the highest-paying, rather than the most satisfying, careers.¹³

Increasing need-based financial aid increases socio-economic diversity on our campuses, and this benefits everyone by creating a community rich in differing life experiences and perspectives. The impact on opportunity is significant. Everyone who is committed to increasing access to higher education should drive home the point that it is not our sticker price, but our *net cost*, that matters to families with financial need.

Public universities, however, may be heading into a perfect storm that threatens to drown the American Dream of an affordable, high-quality college education for their students. Many state universities are now receiving only half the percentage of the state budget allotted to higher education just 25 years ago. And the current economic downturn has led to even steeper cuts in state funding over the past three years.

Never has the message of that 1985 *New York Times* op-ed been more relevant. Pat wrote, “College presidents and boards of trustees fully understand that all sectors of our economy will have to readjust and cooperate to address the country’s fiscal [issues].” But a public response that decreases access to higher education, Pat argued, would be tragic. It would only undermine what this country desperately needs, preparing our young people to deal with the world’s complexities, which in turn will keep America globally competitive.¹⁴

13 Penn was able to implement and sustain a need-blind, need-based, and no-loan financial aid program despite having an endowment that ranks 57th in size per capita in recent data provided by the National Association of College and University Business Officers (NACUBO). One possible lesson is that other universities—with proportionally more resources—can also increase aid for low- and middle-income students, if they make need-based financial aid one of their highest institutional priorities.

14 McPherson, “Why College is So Expensive.”

In sum, the fundamental worth of higher education includes providing talented young people, regardless of their financial circumstances, with an open door to lifelong learning, a productive career, and the satisfactions of creatively contributing to the betterment of their society and world.

“No slogan of democracy; no battle cry of freedom,” Lyndon Johnson said in 1967, “is more striving than the American parent’s simple statement which all of you have heard many times: ‘I want my child to go to college.’”¹⁵

That was the year I received a full scholarship to Radcliffe, bringing tears of joy to my widowed mother’s eyes.

Please join me in joyfully applauding Pat both for decades of invaluable service to higher education and also for the paths of access and opportunity that she passionately blazed for so many talented young women.

¹⁵ President Lyndon Baines Johnson, speech to the Association of State Colleges and Land Grants, 15 November 1967.