

New York Fed Confirms College Is Still 'Worth It'

College is more expensive than it has ever been... These days, parents and students are asking themselves if the benefits of a college education are worth the rising costs.

A recent post on Liberty Street Economics – the New York Fed's blog – said the average annual [price of pursuing a bachelor's degree has tripled](#) since the 1970s to around \$18,000 today (when adjusted for inflation).

Breaking down the costs

According to the Fed, the price of pursuing a college education can be broken down into two components: *out-of-pocket costs* and *opportunity costs*. Out-of-pocket costs are expenses associated with attending college, like tuition and books (room and board expenses don't count since they're a basic necessity). Looking at the "sticker price" of college today – the cost without financial aid – the Fed estimates that a bachelor's degree completed in four years would add up to \$32,000 in out-of-pocket expenses.

Since attending college full-time typically means a student will delay entry into the job market, these lost wages represent an opportunity cost. The Fed calculates opportunity cost using the average wages earned by a high-school graduate during the first four years of employment. "Someone pursuing a bachelor's degree could expect to forgo more than \$120,000 in wages – almost four times net tuition costs," according to the Fed.

The benefits of a bachelor's degree

The upside to investing in a college education is the promise of a higher salary when you enter the workforce. The Fed calls this a "college wage premium." This figure fluctuates over time, but the payoff remains tempting.

From Liberty Street Economics:

In recent years, the average college graduate with just a bachelor's degree earned about \$78,000, compared to \$45,000 for the average worker with only a high school diploma. This means a typical college graduate earns a premium of well over \$30,000, or nearly 75%.

Today, wages of high-school and college graduates (even more so) are boosted by a strong labor market. So the Fed says the premium is near an all-time high. In fact, the labor market for college graduates hasn't been this strong since long before the financial crisis.

It's tricky to estimate the economic value of a college degree, the Fed says. The costs and benefits of higher education come at different time periods (there's negative cash flow while in school followed by positive cash flow over a graduate's career). Researchers used the "internal rate of return" – a common measure used by investors to calculate the profitability of an investment – to weigh the initial costs against a lifetime of career benefits. According to the Fed, that figure remains high today... "At nearly 14%, the return to college easily exceeds various investment benchmarks, such as the long-term return on stocks (7%) or bonds (3%)." While rising tuition costs have chipped away some of the economic appeal of a bachelor's degree, the Fed says college is still a good investment.

A few exceptions

The Fed can't rule out when the high return of a college degree reflects the innate talents and abilities of a graduate, rather than the skills acquired in school. Research also shows that taking more than four years to earn a bachelor's degree will reduce the return on college costs. Lastly, previous studies from the Fed indicate that graduates in the bottom 25% of class and those who dropped out of school see fewer financial benefits from their college experience.

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TEXAS INDUSTRY EMPLOYMENT

Industry	July 2019	Monthly Change	Annual Change	Annual % Change
Total Nonagricultural	12,845,900	35,200	323,300	2.6
Private	10,883,500	33,400	316,600	3.0
Goods-Producing	1,952,900	6,700	84,400	4.5
Mining & Logging	256,400	-3,100	8,800	3.6
Construction	786,500	6,300	48,400	6.6
Manufacturing	910,000	3,500	27,200	3.1
Service-Providing	10,893,000	28,500	238,900	2.2
Trade, Transportation & Utilities	2,532,800	4,300	46,400	1.9
Information	204,000	1,500	-100	0.0
Financial Activities	804,800	4,600	26,500	3.4
Professional & Business Services	1,778,000	4,500	36,300	2.1
Education & Health Services	1,746,200	6,100	47,000	2.8
Leisure & Hospitality	1,412,000	8,300	54,600	4.0
Other Services	452,800	-2,600	21,500	5.0
Government	1,962,400	1,800	6,700	0.3

Source: Texas Workforce Commission Texas Labor Market Review. Information is the latest available at printing time. Seasonally adjusted.

March 2019 EMPLOYMENT

Not Seasonally Adjusted	Civilian Labor Force	Employed	Unemployed	Rate
US	164,941,000	158,385,000	6,556,000	4.0%
TX	14,066,138	13,542,200	523,938	3.7%
D/FW Region	4,063,986	3,825,013	101,298	3.5%

Source: Texas Workforce Commission Texas Labor Market Review

LATEST U.S. ECONOMIC NUMBERS

Long Term Unemployed (27+ wks.) % of unemployed 19.2%	Jul '19	1,166,000
Consumer Price Index	Jul'19	+0.3%
Payroll Employment	Jul'19	+164,000 (p)
Average Hourly Earnings	Jul'19	+\$0.08 (p)
Producer Price Index	Jul'19	+0.2% (p)
Employment Cost Index	2nd Qtr. '19	+0.6%
Productivity	2nd Qtr '19	+2.3%
U.S. Import Price Index	Jul'19	+0.2%
U.S. Export Price Index	Jul'19	+0.2%

(p) preliminary; (c) corrected; (f) final demand; (r) revised - Information is the latest available at printing time. Source: U. S. Department of Labor.

