POPE CENTER for Higher Education Policy

Inquiry

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No. 20 — March 8, 2005

On the 'Investment Payoff' from Higher Education

Will More Spending Produce Better Results?

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Summary: A recent paper entitled "The Investment Payoff "purports to identify a number of significant benefits from higher education — increased personal income, lower unemployment, improved health, reduced reliance on public assistance, more volunteerism, and increased electoral participation. Readers are subtly led to conclude that increased spending on higher education would mean more of those desirable benefits. The weakness of the paper, however, is that it merely shows correlations between the group of college degree holders and the favorable outcomes. This paper notes that the authors of "The Investment Payoff" have not — and probably cannot — establish that there are causal connections between having obtained a college degree and the benefits; nor have they given any reason to believe that increasing government spending on higher education will lead to increases in the identified benefits. Policy makers should not be swayed by "The Investment Payoff" into putting additional resources into higher education.

Introduction

In February, the Institute for Higher Education Policy, with funding from the Lumina Foundation, released a paper entitled "The Investment Payoff: A 50 -State Analysis of Public and Private Benefits of Higher Education." The paper enthusiastically concludes that state and private "investments" in higher education have a very high payoff in these categories: personal income (much more of it); labor and unemployment (less of the latter); reliance on public assistance (much less of it); health (improved); volunteerism (increased); and voting (somewhat more of it).

I don't think anyone ever doubted that such correlations exist. The set of people who earn college degrees largely excludes individuals with serious disadvantages in life, so it stands to reason that good socio-economic results are associated with the former group, while poor results are more associated with the set of non-college people. The fact that people with learning and other disabilities of the sort that prevent them from being successful are included in the "non-college" category inevitably skews the results of such comparisons.

So what is the point of the paper? It's designed as documentary support for higher education officials who want to wrangle more money out of Congress and state legislatures. From the correlations they establish, the authors conclude, "This simple articulation of the benefits of higher education for individual states needs to be more prominently featured in state policy debates regarding the investment of state resources in higher education." When Samuel Gompers was asked what the objective of the union movement was, he simply answered, "More." That is also the objective of higher education officials and "The Investment Payoff" seems calculated to help them get it.

Let's assume that all the numbers in the report are correct. The questions for policy makers to ask when higher education officials and their lobbyists come looking for more money are two:

1. Is there a causal relationship between having gone to college and the various outcomes identified in the study?

2. Does it follow that spending more money on higher education will provide more of the good results attributed to it?

Correlation or Causality?

In trying to buttress the pleas for increased spending on higher education, the paper never uses the word "cause," although it is evident that the authors would like readers to jump to the conclusion that people earn more money, are healthier, vote more, etc. because they have gone to college. For example, the well-known statistic that on average, people with college degrees earn more than people without them (a difference of $23,000 annually in 2004) is presented and the authors say that this shows that people holding college degrees have an "increase in earning potential." Get a degree and you'll earn more - that's the message. A causal connection is implied.

That implication, however, is unwarranted. One can easily find people who dropped out or never entered college who earn good incomes - some in business and others in such jobs as construction or auto repair. Conversely, one can easily find college graduates who earn low incomes in such jobs as delivering pizza, selling video games, or other rather menial employment. Some students learn a great deal of useful knowledge and skill during their college years which are necessary conditions for their subsequent economic success, but it's also true that others sail through college taking easy courses and experience little or no gain in cognitive abilities. It is therefore erroneous to assume that there is a causal connection between the earning of a college degree and later success.

The qualities that make people studious tend to correlate with the qualities that make them successful in life. Now that going to college is generally expected and, with a modicum of financial planning affordable to nearly everyone, it is just one of the things that people who are geared toward success usually do. Seldom if ever is the college experience the crucial determinant of an individual's life trajectory.

An analogy may help to clarify the point. Let us surmise that there is a strong correlation between income and reading newspapers. A far larger percentage of financially successful people read newspapers than do people who are not very successful. It is merely a correlation, however. If a low-income worker started reading *The Wall Street Journal* every day, that would not cause his income to rise.

Exactly the same analysis applies to the other benefits claimed in the paper. On the average, college graduates have somewhat lower unemployment rates than do non-graduates, but it does not follow that the degree is the causal factor in that difference. On the average, college graduates rely less on public assistance that do non-graduates, but it does not follow that the degree is the causal factor. The same for good health, volunteerism, and voting. (While voting is almost universally esteemed as a sign of "good citizenship," I'm aware of no evidence to show that states with higher rates of political participation are in any tangible way better off than states with lower rates. The authors present none.)

"Correlation does not necessarily mean causation" is one of the rudimentary lessons of statistical analysis, but apparently one that the authors of "The Investment Payoff" hope readers will ignore.

Would More be Better?

If a farmer adds fertilizer to his field, doing so may very well cause an increase in crop yield. Even so, adding more fertilizer might benefit him nothing. Merely because some of something is beneficial does not prove that more of it will also be beneficial - the law of diminishing returns. Keeping that in mind, let's analyze the benefits that "The Investment Payoff" attributes to higher education.

Personal Income

No doubt it is true, on average, that individuals who have earned college degrees have higher incomes than do individuals who completed their formal education with only a high school diploma, or less. And it may very well be true in many instances that people who have gone to college couldn't have reached the level of success they have without their bachelor's and post-graduate studies. But does it follow that everyone who has not gone to college would have higher earnings if he had done so? Is it the case that people who decide that college isn't for them are making a mistake by underinvesting in education?

That would seem to be the between-the-lines message of "The Investment Payoff." The reader is apparently expected to conclude that more people getting college degrees would necessarily translate into higher earnings and more tax revenue. Nothing in the report cautions that there is a point of diminishing returns on formal education and that for many individuals, that point occurs before the college level.

In fact, there is reason to suspect that many individuals are already overinvesting in formal education, earning college credits and degrees that are of no pecuniary benefit to them. In their 1999 book *Who's Not Working and Why?* economists Frederic Pryor and David Schaffer observed that a rising percentage of recent college graduates in the U.S. end up taking "high school jobs" after receiving their college degrees, a situation they blame on the low academic standards that now prevail at many colleges and universities. In Britain, which has followed a policy of attempting to raise the percentage of young people who go to college, there is a similar glut of graduates competing for fairly menial employment. (See *The Debate on Higher Education - Challenging the Assumptions* by Adrian Seville and James Tooley, Institute of Economic Affairs, 1999.)

Owing to the combination of financial subsidies from government and the promotion of the idea propounded by the education establishment that unless you go to college, you are going to face a life of low-paying drudgery, a very high percentage of young Americans now enroll in some institution of higher education following high school. Unfortunately, many of them are intellectually unprepared for college and have little interest in academic work . Some of them drop out; others continue through to their degrees in the atmosphere of low expectations that prevails at many colleges and universities. Just having obtained a degree, however, does not ensure good, high-paying employment, and the four or more years spent in college are for them an unproductive investment.

The idea that the United States, or at least many of the individual states, are beyond the point of diminishing returns on higher education finds support in a recent study done by Ohio University economics professor Richard Vedder. If the implicit conclusion of the Institute for Higher Education Policy paper about the "payoff" from higher education holds true, we would presumably find that the more a state "invests" in higher education, the better its rate of economic growth. What Professor Vedder found, however, was a negative relationship between state higher education spending and economic growth. (See his book *Going Broke by Degree*, American Enterprise Institute, 2004, pp. 134-38.) Vedder explains his counter-intuitive result by noting that resources spent on higher education are diverted from other uses, public or private. States which already spend heavily on higher education are taking resources away from alternative and more productive uses. Rather than improving economic productivity or even increasing "access" to higher education, Vedder maintains that incremental spending increases merely "redistribute income from the taxpayers to the university community" (p.137).

In short, it is neither true that more education necessarily means higher earnings for individuals or that more education spending necessarily means higher economic growth for states.

Labor and Unemployment

The paper posits a gain in terms of greater productivity and lower unemployment from the investment in higher education. Again, we must ask whether should expect to see continuing gains in productivity and declines in unemployment if more people went to college.

For many workers, the kinds of skills and knowledge taught in college courses are quite unnecessary in their lines of employment - construction workers, auto mechanics, food service workers, and so on. It is difficult to see how a greater "investment" in college coursework could do anything to increase their productivity or decrease their likelihood of unemployment.

Each individual has a strong incentive to find the optimal degree of training for his particular line of employment, but that training will often be outside the setting of formal college education. Attempting to increase the numbers of people who go to college may at this point only increase unemployment among the marginal students by encouraging them to search for jobs in the glutted "college graduate" labor market until they give up and accept work in the "high school job" field.

Reliance on Public Assistance

On average, it is true that people with college degrees are less apt to need to rely on public assistance, but does it follow that if individuals who are on public assistance and don't have college degrees could be helped through to a degree, they would therefore be able to get off public assistance? "The Investment Payoff" implies that we should expect to see a decline in need for public assistance as we increase the percentage of people who go to college, but it is impossible to see how more "investment" in higher education would do that.

Most Americans who receive public assistance are not in the labor force at all (such as single mothers) and haven't even completed high school. People who receive public assistance will not suddenly become self-supporting merely because they take some college classes or even earn a degree. There may be things that private and public entities can do to help people who are on welfare become independent, but even if increased higher education spending manages to get a few more marginal students into college, it is difficult to see how that could accomplish anything for people who are apt to rely on public assistance.

Health

Based on individual reports of their health, "The Investment Payoff" finds that individuals who have college degrees tend to be healthier than individuals who don't. The Census Bureau information relied upon here is rather vague, with respondents asked whether they are in "excellent health," "very good health," "good health," and so on, but the authors of the study believe that there is a significant correlation between having a college degree and having better health. And better health is not just a personal benefit - there is also a "broader social benefit in that healthier citizens reduce expenses on insurance, unreimbursed medical expenses, and other costs that are often passed on to other consumers." There's the policy hook — the implication that society could save on medical costs if it did more to promote higher education.

That conclusion, however, is unwarranted. Society can no more bootstrap itself up to improved health through educational spending than it can achieve higher employment levels through educational spending. Following a healthier lifestyle is just another of the attributes that is associated with being a successful person, whether with or without a college degree. No state should expect to see its Medicaid costs go down just because it manages to enroll somewhat more of its citizens in college. Obtaining a degree will not transform individuals who prefer less healthy lifestyle choices into highly health-conscious ones.

Volunteerism

According to the study (relying again on Census Bureau data), 36 percent of the U.S. population having a college degree reports having volunteered for some activity, whereas only 21 percent of those with only a high school diploma report having done so. Again, the data are just vague self-reports, but let us assume that there is a significant correlation between volunteerism and the level of educational attainment.

As with the benefit categories discussed above, there is no reason to believe that further promotion of higher education would have any detectable effect on the rate of volunteerism. Individuals who are not inclined toward volunteering are unlikely to have their views changed merely because they take some college classes or even earn a degree - indeed, most college graduates report that they do not volunteer. It may be the case that as people become better off financially, they tend to be more willing to spend time in volunteer work, but for reasons already discussed, a college degree itself is not apt to do anything to improve the employment and earnings situation for those people who currently do not go to college. Thus, even if a state increased spending on higher education to lure more of its residents into enrolling, it should not expect to see any increase in volunteerism.

Voting

"The Investment Payoff" finds that "higher education increases the likelihood of voting, again based on Census Bureau data. Why a higher rate of voting is beneficial is not explained. If there is reason to believe that high voting percentage states like Wisconsin are in some way better off than relatively low percentage states like Georgia, the authors do not present it. Readers are just expected to assume that more voting is better.

Even if it is better, there is no reason to assume that efforts to persuade more of the population that is not currently attending college to enroll would have a significant impact on electoral participation. Just as with volunteerism, taking college courses is not likely to do much to change an individual's attitude toward politics and voting.

Conclusion

The authors of "The Investment Payoff" call for additional efforts to "develop specific and quantifiable indicators of the value of higher education at the state level. Such an expanded understanding of the payoffs that result from the public and private expenditures in higher education could go a long way toward improving the prospects for state economic development, social stability, and individual prosperity." That is to say, the Institute for Higher Education Policy would like to see more correlations between the possession of college degrees and good social indicators to make it easier still for higher education spokesmen to make the seductive case that spending more on higher education will have a good payoff.

Before anyone begins looking for additional support for that "expanded understanding," the authors of the paper ought to answer two questions: First, whether they find any causal connection between higher education and the personal and social benefits they claim to flow from the higher education "investment" - especially in light of the evidence of falling standards and effectiveness at many institutions. Second, whether there is reason to believe that dipping further into the shrinking pool of students who do not attend college - generally the students with a low aptitude for and interest in education - will result in societal benefits that exceed the costs.

For all of its statistics, "The Investment Payoff" fails to prove that spending more on higher education wouldn't be like a farmer spreading more fertilizer on an already heavily fertilized field. Policy makers should not be drawn into supporting expanded higher education budgets in the belief that doing so will lead to increasing incomes (and tax revenues), falling unemployment and welfare rolls, improving health, and more volunteerism and voting.

About the author

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