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[The Million Dollar Misunderstanding](#)

Published by [Robert Pondiscio](#) on February 3, 2010 in [No category](#). [10 Comments](#)

Everyone knows that a college graduate will earn nearly a million dollars more than a high school graduate over his or her lifetime. Everyone may be wrong. The common and much-repeated college earnings premium stems from a 2002 Census report titled “[The Big Payoff](#).” According to that report, the average high-school graduate earns \$25,900 a year, while the average college graduate earns \$45,400. Take the \$20,000 dollar difference, multiply it times a 40-year career, and you’ve got the \$800k college earnings premium.

The Wall Street Journal’s Mary Pilon [points out](#) that the actual premium is under \$300,000, once you factor in tuition payments, student debt loads and other variables. The Cato Institute’s [Andrew Coulson](#) goes even further, calling the oft-repeated wage gap figure “worse than useless.”

For a college earnings premium figure to be of any value to policymakers or prospective college students, it would be necessary to break it down by field and by student characteristics. What’s the premium difference, for instance, between workers who majored in engineering, chemistry, computer science, mathematics, economics, etc., compared to those who majored in communications, art history, social work, multicultural studies, etc.? A similar breakdown of interest would be by SAT score.

As a teacher, I confess I often invoked this statistic with my students, asking them “How’d you like to be a millionaire?” and selling them on the benefits of college as a goal. Even if it’s a specious argument, I probably still would. Three-hundred large is incentive enough.

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10 Responses to “The Million Dollar Misunderstanding”

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1. [Michael Yuri](#)
[Feb 3rd, 2010 at 12:29 pm](#)

The million dollar figure (or \$300,000 for that matter) is deeply problematic.

First of all, the number is based on an average graduate, but treated as if it applies universally. Even assuming the average college graduate makes \$1 million more, that average college graduate is not who we’re concerned about. The people we’re concerned about are the marginal college attendees. The borderline kids who are on-the-fence about whether or not to go to college. And these kids are very different from the “average” college graduate. They typically have lower test scores, lower high school GPAs, and correspondingly worse literacy and math skills. There is no reason to believe that the *marginal* college attendee is likely to have the same career outcome as the *average* college graduate.

A good place to start would be to look at the bottom 10% or so of college graduates and compare their earnings to high school graduates. I wouldn't be surprised if the benefits are minimal, or even negative when student debt and opportunity costs (4-6 years of lost income and advancement) are considered.

Even this number would be inflated because of huge selection effects. A staggeringly large number of kids who start college never earn a degree. These kids take on the debt and forego the income, but they don't get factored into the average outcome because they never become graduates.

The selection effect goes much farther, however. Even the figures for the average college graduate are suspect. Take the average college graduate and the average non-college graduate, and compare them at the point in time when they graduated from high school. Already, even before attending college, the future average college graduate was likely smarter, better-educated, and more conscientious than her future non-college graduate counterpart. Had she not gone to college, it is very likely that these very same characteristics that allowed her to succeed in college would have caused her to do better than average in her career.

The only reasonable way to do this comparison is to take a bunch of high school kids that choose not to go to college, and compare them against as similar as possible a group who have chosen to attend (including those who start but never finish college), and see what the outcomes look like (taking debt and lost income into account).

I believe that similar studies that have compared students attending elite colleges to comparable students attending less prestigious (and usually less expensive) schools have found that the bulk of the earnings premium received by elite school graduates can be attributed to student characteristics rather than to the school.

2. [2 ewaldoh](#)
[Feb 3rd, 2010 at 12:52 pm](#)

Any lifetime comparisons are bogus whether looking at all college grads or some sub-group. Schools teachers, college degree(s) and all, are often a poor example against the typical trade worker starting at age 18.

Much more important is a student finding a career that can provide a few decades of satisfaction and maybe take some courses later that can advance him/her later in life.

A kid with good mechanical skills and a love for the outdoors might be much happier and equally well off financially working construction than to be stuck engineering in a building.

Regardless, dollars ain't everything.

3. [3 AJGuzzaldo](#)
[Feb 3rd, 2010 at 1:26 pm](#)

Telling kids they need to try hard in high school so they can go to college and make more money is a mistake. The kids who aren't interested in college might then conclude, logically, that there's no reason to try in high school if college isn't in their future.

I think what we should be doing is helping kids connect their quality of life with their achievement in high school, no matter what their pursuit when they graduate.

4. [4 Claus](#)
[Feb 3rd, 2010 at 2:59 pm](#)

Maybe if I had examined the payoff of law school instead of grad school in the humanities, I would have made a different decision. Would that my college professors had shared those data with me.

Still, I agree with Robert that it's important to sell students on college. There's compelling research out there that suggests students will do better if they believe they have a shot at college—that they can afford it and meet the standard with hard work. It may be true that students with lower grades and scores may reap fewer financial benefits from college. But I worry about what would happen if we stopped trying to sell students on college. I don't know many high school grads—or dropouts—who enjoy much “quality of life” without going on to postsecondary education.

5. [5 AJGuzzaldo](#)