Education and a Booming Economy

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Education and a Booming Economy

Arguably one of the most important purposes of post-secondary education is to improve one’s economic prospects. Economists call this investing in human capital. There is overwhelming economic research to support the proposition that investing in a college education increases economic returns over a lifetime. The typical analysis compares the lifetime earnings of a high school graduate to those of a college graduate, and the results are unambiguous: investing in post-secondary education pays a higher rate of return than the stock market. (See here and here).

But what if economic circumstances change this calculation? The current US economy has among the lowest overall unemployment rate in nearly 50 years and the lowest rates ever recorded for black Americans and Hispanic Americans. (See here, here, here, and here)

Recent news stories have reported that many employers, including tech giants Google and Apple, have dropped the requirement of a college degree for entry level employees. Other news stories have reported that recent high school graduates are making six-figure incomes in some industries, including the oil and gas industry. It is arguable that there has never been a better time for a high school graduate to head to the job market.
Should this exceptional economy change the way talented and ambitious high school students consider their college decision? Their investment in human capital?

I think the answer is unambiguously no. College remains the right choice for most high school graduates because a college education is not about preparing students for the first job after graduation, it is an investment for a career and a lifetime.

Young people entering the job market may well get jobs with a dream employer and might earn incomes their parents would envy, but when the economy slows down, as it inevitably will, how prepared will recent hires be to weather that economic bump, to say nothing about moving up the career ladder?

It is certainly understandable why employers are seeking fresh talent in this economy and are currently willing to forego a college degree, but Google and Apple are not making any commitments to new hires regarding the future. They are not promising that long-run retention decisions will not consider educational attainment, and certainly promotion decisions will weigh whether a candidate has a college education, as that degree can signal some important information about an individual’s talents and character.

A young person can certainly go back to college or take courses part-time to get their degree if employment prospects decline in the future, but older students often find it harder to complete degrees if they are not moving through college with their peers or if they have additional responsibilities like a family to consider.

In short, the current booming economy has likely temporarily narrowed the gap between the earnings of recent high school grads and young college graduates, but there is no evidence to suggest that historical trends showing that the gap between high school graduate earnings and college grad earnings widening over a lifetime have changed.

A college education is still a wise investment for most high school students despite an attractive
job market because the investment is about a lifetime not the duration of the current economic boom.

A parent recently told me about his daughter’s decision to drop out of college after a year because she felt the education was not needed. She got an entry level job in a retail establishment. She found she liked the work and was good at it. She talked to her store manager about the company’s management trainee program and was encouraged to apply but was also told that a college degree was required to be accepted into the program. The young woman is back in college with renewed motivation, is doing exceptionally well and her parents are delighted.