Economics of Education: Crash Course Economics #23

Crash Course: Economics
https://youtube.com/watch?v=8lPbkHVxenU
https://nerdfighteria.info/v/8lPbkHVxenU

Adriene: Welcome to Crash Course Economics, I'm Adriene Hill Jacob: and I'm Jacob Clifford. Some of you might be watching this video in school right now, but even if you're not, you've probably spent a good chunk of your life getting educated. Adriene: Nearly all countries require at least some mandatory schooling and most of those countries provide that education for free. Jacob: But nothing is ever actually free. There's always an opportunity cost. The money and resources that go into education might be used to fund other social programs or bring down the debt. Adriene: And if you go to college, the cost is not just the tuition and books, it's also the income you could have earned by going straight into the workforce. Jacob: But is college even worth it? Well, let's look at the economics of education. [Theme Music] Adriene: Why do governments spend billions funding universal public education? Why not just let profit seeking businesses handle it? Many argue that if education was entirely privatized it's likely that some children would be excluded, and that would make society, as a whole, worse off. Education is a positive externality. Education benefits individuals by helping them get a job and earn more income, but it also benefits society as these individuals create art, invent cool stuff, cure diseases, and make interesting conversation at parties. More education increases productivity, GDP, and standards of living. So, today we're going to look at the education system in the United States. We're talking about the US not only because we make Crash Course in the US, but because education in this country is going through a lot of changes. This way, we get to talk about things like education standards, vouchers, and student debt. Now, to be sure, there are places that do things differently. For example, in the European Union college costs a lot less than it does in the US, or is even free. In America, the government pays for primary and secondary public education and heavily subsidizes college. In 2015, the federal and state governments will spend about 634 billion dollars on primary and secondary education. That's an average of about 12,500 dollars per student each year. Which is a lot of money. And despite all that spending, the US has some serious problems with its education system. One of the biggest is inequality. Students from low income families tend to have lower math and reading test scores than those from higher income families. African American, Latino, and Native American students are much more likely to drop out of high school than their White or Asian counterparts. Jacob: For some economists, the best way to level the playing field is to focus on funding. They argue that the government should pay for early education programs, and provide extra funding for disadvantaged and low-income students. For others, the answer isn't just about more funding, it's about having more competition. Some economists support charter schools and voucher programs that allow parents to pick schools, or open enrollment among or within school districts. Now in theory, this forces all schools to improve, or face losing their funding. Other economists focus on the teachers, and argue that they should be incentivized to improve student performance. Each of these ideas have been implemented in the US, with varying success. We have yet to find the magic formula, but it's clear that the first step to improving equality is to invest in primary and secondary education. Now, what about higher education? Is that a good investment? Well, keep in mind that there are many reasons – not all of them economic - to go to college, and to be educated in general. People go to college because they enjoy learning and want to know more. Or maybe they want to put off getting a real job. But in economics, we focus on the financial benefits. Is college worth it? The fact is, college graduates, on average, earn more. Economists call this the "College Wage Premium." Among 25-32 year-olds, college grads earn an average of $45,000 vs $28,000 for those who only have a high school diplomas. Also, the unemployment rate for college grads is pretty much always lower. Right now, for people over 25 with a college degree, unemployment is around 3%, vs. around 5.4 percent for those with only a high-school diploma. And it's 8.6 percent if you didn't finish high school. So bam – college pays off, case closed. Adriene: Well, not quite. The people who graduate from college are NOT a randomly selected group. First, it takes a modicum of intelligence and dedication to even get into college. Second, you have to receive a fairly good primary and secondary education to be able to keep up with college work. Third, the students who attend college are more likely to come from well-off families with educated parents who have the time and energy to help encourage their success. So when you compare college grads to those with less education, you're often comparing people from advantaged backgrounds to people without many of those advantages. The fact that college graduates make more money isn't just about college. It's also about life circumstances. Let's go to the Thought Bubble: Jacob: Economists point out two main explanations for why college graduates earn more. The first is the "Human Capital" theory. The idea is that going to college actually teaches you skills that'll help you get a higher income job. The second theory is called "Signalling." The idea that some students have shown they are smart and hard-working, but in a job interview, EVERYONE is going to claim "Sure, I'm smart and hard-working!" even applicants who aren't. So the talented applicants need something else to validate their abilities that can't be faked by others. A college degree sends a clear signal. "Look at me! I graduated Summa, and I've got the notarized transcripts to prove it!" Many employers would prefer an applicant that has an actual Harvard degree over one that has an equivalent self-taught education. But a college degree isn't only about signaling ability, we could accomplish that with a test that would take one day and $100, rather than 4 years and potentially hundreds of thousands of dollars. College degrees send other signals about socio-economic status and background. BOTH the human capital theory and the signalling theory are compatible with the data: both predict that college graduates would earn more, which is what we see. But economists have tried to figure out which theory is correct. They have compared the earnings of people who have earned 7 ½ semesters worth of college credits but didn't graduate, to people who finished and got a degree. Both groups received about the same amount of education, so if the Human Capital theory is correct, they should earn about the same amount of money. If the Signalling theory is correct, those with degrees should earn noticeably more, and they do. But it's a smaller gap than you would find from just comparing high school and college grads. It seems that both theories apply. Adriene: Thanks Thought Bubble. Okay, so we know that there are significant financial benefits to completing college. But what about the costs? Going to college can be really expensive. Often more than most families can afford. In the US, students have over 1 trillion dollars of debt. That's more than Americans owe on their cars or their credit cards! More students are attending college than ever, and more of those students are paying for at least part of their education with loans. In 2012, almost 70 percent of students took out loans to pay for tuition, and the median amount they borrowed was around 27,000 dollars. By comparison, in 1993, the median amount students borrowed was around 12,500 dollars. And that's just the median. So even if some of the hand-wringing over the total amount of student debt is overblown, the average student really is taking on a larger burden. So, this is all thanks to higher tuition, right? Well, not exactly. At four-year public universities, the average cost of tuition, room and board has gone from $10,600 dollars in 1994 to $18,900 in 2014, when you adjust for inflation. The average tuition at comparable private universities has risen from $26,500 to $42,400 during the same period. But that rising tuition number is the "sticker price" for college – in fact, most students receive very substantial discounts. Students from wealthy families, with not-so-great SAT scores might pay that full sticker price, but once you factor in cost reductions from scholarships, fellowships, grants and other sources, many students pay substantially less. Once you adjust for discounting, the rise in net tuition has been kind of modest. So, why all the debt? Well, for-profit colleges and universities might be contributing to this. Students at these schools tend to take on more debt than students at public schools or private non-profits. It's also possible that student debt is rising because graduate school enrollment is up. And grad students borrow more than undergrads. Another reason tuitions are increasing is because the actual cost of running a college is higher than a few decades ago. As some schools compete for students and their money, some of them build luxurious dorms, climbing walls and gourmet dining to attract revenue. Another possibility is that colleges now employ more administrators and pay them a whole bunch of money. Jacob: So, in cold, hard, merciless dollars, does it make sense to spend – or borrow - a bunch of money on a college degree? Well, it depends a lot on the degree you get, but on average the answer is, yes -- as long as you finish! Many of the worst student-debt horror stories involve students who racked up large debt, but were unable to finish college. And that's surprisingly common: Every year in the US, 60% of high-school graduates enroll in college, but only a little over half actually graduate within 6 years. That's right: only half. But what about students that don't have the means or the inclination to go to a four-year university? Are they doomed to live in squalor? Well, no, but again better money can be found in careers that require specific training and skills, which can be learned through a community college or through an apprenticeship. The average car mechanic earns $40,000 a year; the average plumber earns $50,000; and the average electrician $55,000. And as more young people opt to go to college and as older people in these careers retire, most economists expect these wages to rise. So what is the final conclusion? Is college even worth it? Well, I guess in the end, we have to say, it depends. It depends on where you go to school; how much you pay for your degree; and it depends on what degree you get. And, of course, on what you want to do with your life. Adriene: Education isn't just another thing that you buy. It isn't only about individual gain. There's a social aspect, too. We want everyone to have access to quality education because having an educated populace benefits all of us. Education can also be a powerful tool when it comes to reducing poverty and addressing income inequality, and we're gonna talk about that next time. Thanks for watching! Jacob: Thanks for watching Crash Course Economics. It was made with the help of all these nice people. You can help keep Crash Course free, for everyone forever by supporting the show at Patreon. Patreon is a voluntary subscription service where you can support the show with a monthly contribution. Thanks for watching! DFTBA.