Economists often joke that there is a reason we never see a $100 bill lying on the ground: someone else would have picked it up, and probably very quickly. That’s why a Ph.D. in economics doesn’t help you get rich quick in the stock market (much to my father-in-law’s disappointment). Sometimes, however, there are situations in public policy where there are figurative $100 bills lying around waiting to be picked up. Public investment in college students is one such case. To the government, each potential college graduate is a figurative $560,000 bill lying on the ground. True, it costs $74,500 to pick it up, but that’s obviously a great deal.

Indeed, this deal is made more than 2 million times a year nationally, as new college graduates start creating all sorts of positive fiscal effects in federal, state and local budgets. There are many more figurative $560,000 bills still waiting to be picked up. But instead of making more of these $74,500 investments, public investment in college education is a falling priority.

Investing in Students
Presumably the reason there are still $560,000 bills lying around is that picking them up requires substantial upfront investment. Like any other good investment though, the upfront costs are more than recovered later. There are numerous public benefits reaped from public investment in college education: the creation of knowledge, greater prosperity, better health, longer life expectancy, increased civic participation, reduced crime, etc. These benefits to society probably recover the public cost of investment in college education many times over. But the government cost is also more than recovered in another important, and more easily measured, dimension.

Unlike public investments in, say, fire protection or disease prevention, investment in college students creates direct fiscal payoffs to governments in terms of additional tax revenues and reductions in expenditures on various social-insurance programs. In this way, government funding of higher education pays for itself many times over—specifically, 7.5 times over. Even ignoring the various benefits to individuals and society, public investment in college students is a very sound use of tax dollars.

Fiscal Impacts
It is well known that college education leads to higher earnings, so it is hardly surprising that it also leads to greater tax revenues. But the magnitude of this effect is probably not fully appreciated. Over the course of an average lifetime, a four-year-equivalent degree leads to about $476,500 in additional income, payroll, property and sales taxes. The magnitude of the college-attainment effects on various public spending programs may be surprising as well. Each four-year-equivalent degree leads to lower spending on various welfare programs, Medicaid, Medicare, Supplemental Security, unemployment compensation, worker’s compensation, incarceration
Why the Estimated Investment is Generous

Why is the $74,500 price tag per degree generous? Mainly because the total investment includes all public funding for higher education: appropriations for operations and capital costs at state colleges, public college endowment revenues and federal grants and loans, even financial aid to students in private colleges. But this total is divided by the number of degrees earned at public institutions only. The public cost per degree from all colleges is, still generously, about $48,000. For more, see “The Fiscal Impacts of College Attainment” available at http://www.bos.frb.org/economic/neppc/index.htm

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