Key Concepts:
knowledge economy
global competition
earning potential

Chapter 1
Separating Fact From Fiction

Picture this scene: A working-class father gives up his own career and future to allow his daughter to achieve her dream of attending an elite college thousands of miles from home. He sells his small limousine business to come up with enough money to pay another year of tuition at a prestigious but pricey school so his daughter can “change the world” someday. The melodrama makes for great theater, helping propel the musical “In the Heights” to a Tony Award in 2008. Talk about art imitating life: The scene draws its power by mining the emotions surrounding one of the toughest and most confusing decisions families face today – college choice.

Note we said “families.” Advice books and news articles often portray the choice as almost exclusively up to the students themselves. Parents are cast mostly in roles of emotional and financial support. It makes sense, right? Decisions about where to apply, how to get in and what to study are ones that directly affect students’ futures. But such decisions also may have direct effect on the future of the entire family. That means the college decision isn’t just about what you the student wants; it’s about making choices that work for you and your family.

In the play, we’re supposed to forget the fact that the father had originally rejected the low-ball purchase price for his business as insulting. Dismiss the fact that his daughter had already lost her scholarship and dropped out of school once before. Overlook the fact that selling the business to a developer would throw his employees out of work. Ignore the fact that there were probably a few dozen colleges – presumably with a lower price tag – within a 20-mile radius of the family's New York City neighborhood.

Such cold, hard facts seem downright petty compared to the dramatic idea of a parent sacrificing everything to give his child the best education possible. In the fictional "Heights," and often in the real world too, parents are applauded when inconvenient truths are ignored for rosy fantasies where everything, including picking a college without dealing with financial realities, "works out in the end." In this fantasy world, students and their parents are encouraged to believe that they can never overpay for a college degree and that having the family take on huge financial obligations will result in a secure and well-paying future for their eager young student.

If you are a typical college-bound high school student, you might have spent a lot of time worried about choosing the "right" school. Do you go for the top college you can get into or the one that gave you the warmest, fuzziest feeling the day you visited? Do you go where your friends go or do you strike off on your own? Your parents have likely divided their worries between hoping that the school you like likes you back and figuring out how to pay for your dream. Yet, if you are like countless other students, you probably have spent far less time pondering a really critical detail: How to make college pay off for you.

Consider this chapter's opening scene a perfect gut check of whether this book is for you. If you think the father made the right choice (without, by the way, even consulting his wife and business partner), you might as well stop reading now. You probably won't appreciate what we have to say.

If, on the other hand, you think the father's choice was, well, nuts (or, at the very least, ill-advised), then settle in and prepare for a frank, rational discussion about what has become a frenzied and irrational topic. Consider this conversation an antidote to the over-the-top, panic-inducing, you're-doomed-if-you-don't-make-it-into-the-best-school stories you read in the media, in other college advice books and even in schools' own admission materials. You'll find no hysterics here.

Wait, what's an advice book without at least some shrill warning? OK, so you'll find that we sound alarms in two key areas: taking on too much debt for an undergraduate degree and failing to graduate. Note we said *too much* debt. The warnings seem warranted given the facts:

- Only 57 percent of students who enroll full time at a four-year college actually graduate within *six* years.
- More than one-quarter of students who start college drop out before the second year.
- Two-thirds of four-year undergraduate students who actually make it to graduation leave college saddled with debt. On average, students who borrow owe $23,186, meaning they are looking at roughly a $230 monthly payment for at least 10 years. (By the way, this total is just for the students themselves. It *does not* include what parents might have borrowed.)
- Students who take out loans but never complete their college degrees are 10 times more likely to default on their loans and twice as likely to be unemployed as student borrowers who graduate.

Plenty of families every year are making choices about college without strategically thinking through the long-term benefits of the college degree and the long-term consequences of their financial commitments. Families get so caught up in the short-term thrill and pressure of the choice that they fail to think about the big picture.

As a result, too many families are paying more than they can afford or more than what makes economic sense for a college education, and too many students are leaving school – whether after graduating or dropping out – overburdened by debt yet lacking marketable skills.

That's right, the goal is *marketable* skills. While some young people may still seek a college degree for personal intellectual fulfillment, for the vast majority of students, getting a degree is really about getting a job. Many in higher education would be offended by our bluntness. College, they say, is about expanding the "life of the mind." In fact, higher education in the 21st century is about expanding your knowledge and skills so that you can compete in an increasingly competitive work environment. That means college is more of a business decision than a lifestyle choice.

Unfortunately, many students today are trapped between the old ways of thinking about college and the new realities of the competitive, technologically driven knowledge economy. Your college degree should give you some edge in the marketplace. That competitive advantage may come from a thoughtful understanding of world history and economic systems or from a thorough grasp of the latest breakthrough in biotechnology. But whatever area of knowledge and skill development you choose, you need to be aware that the economic value of a college education is directly related to the value of the knowledge and skills you gain. And the economic value of the knowledge and skills you gain is, for good or bad, determined by the marketplace. If you accept that basic premise, then you're ready to plan an education investment strategy that makes the most of your knowledge and financial capital.

Why the College Decision Is Different in the 21st Century

If you've ever heard the phrase "knowledge economy," then you already know why the decision to go to college is different today than it was a generation ago. The knowledge economy refers to the fact that brain beats brawn in the economic marketplace of the 21st century. There are a lot of ways to join the knowledge economy, but most young people have figured out that a college degree is one of the most direct routes to a prosperous future.

Unfortunately, most advice about college hasn't changed to keep up with the times. What kind of college, how much to spend and how to invest your time once you get on campus are the decisions that cause many students and parents to flounder. What we hope to do with this book is help you get the most out of this first big life choice. But first, let's talk about why the decision to go to college is so different now. *In a nutshell, the enrollment numbers are higher, the costs are higher, the stakes are higher, but the financial, social and developmental rewards may not be.*

Difference No. 1: Huge numbers of people go to college now, not just the academic and financial elite.

Higher education was never set up to prepare large numbers of people to compete in a global marketplace. In your parents' generation, only about 20 percent of people who completed high school went on to earn a bachelor's degree. (Sixty years ago, only about 5 percent of all U.S. adults had a bachelor's degree.) The people who went on to college back then tended to be students who had the best academic preparation, the most money or an extraordinary amount of personal motivation. Today, close to 70 percent of high school graduates plan to continue their education. Many of these students are not attending college because they want to explore the "life of the mind." Instead, the vast majority head off to college these days because that is what they believe they must do to land a good-paying job. This means that college is increasingly seen as "vocational" or work preparation, not a hallowed "ivory tower" of theoretical learning.

The growing number of people participating in undergraduate education has put a lot of pressure on colleges and universities, which don't always know how to help students from an increasingly wider variety of academic and financial backgrounds succeed and make it to graduation. In many ways, the traditional structure of higher education has not adapted to what has been a seismic shift in college participation. How do we know this? Recall that earlier graduation statistic: Among those students who enroll full-time at a four-year college after high school, *only 57 percent succeed in earning a degree from that school within six years,* according to the most recent National Center for Education Statistics data. That means 43 percent dropped out somewhere along the way, whether after one year or after five. The appalling reality in the rosy college picture is that far too few students realize any actual return on their family's college investment. Here's the shocker: ***If you leave college without earning a degree, you will see very little economic benefit from your education investment.***

What Does This Mean for You?

To increase your chances of success in college, it is more important than ever to make sure that the college or university you choose is the best option for you in the long run. You have to think more strategically about the reason you are going to college, what you plan to get from the experience and what your priorities are.

Difference No. 2: College is expensive.

The second reason that the decision to go to college is different in the 21st century is the cost. College costs have been increasing dramatically. For the past 30 years, the sticker price for attending college has increased much faster than the costs of other goods and services, according to the College Board's "Trends in College Pricing 2010." Even controlling for inflation, the average published tuition price of a four-year public university is now *3.5 times* what it was in 1980. The average published price for tuition and fees at a private college is now nearly *3 times* what it was 30 years ago. In the past 10 years alone, the published price for tuition and fees at a four-year public university has grown, on average, by about *7 percent each year.*

What Does This Mean for You?

Unless you have your own private stash of cash, coming up with the cost of four years' worth of a college education will require some strategic thinking. Getting the best deal and the biggest bang for your buck should be a top priority. That's how you improve the odds that your investment of time, money and hard work will pay off. As you'll see, not all college investments are created equal.

According to the College Board report, the average annual published price for attending a public institution tops *$16,000 per year.* This price includes tuition, fees, room and board. The average published price for private not-for-profit institutions is nearly *$37,000 per year. When you add it all up, a four-year degree comes with an average sticker price of **$64,000** to **$148,000.***

We should point out that most students do not pay the sticker price. About two-thirds receive some sort of financial aid. A 2010 report from the National Center for Education

Definitions

Public – Public institutions can be universities, colleges, community colleges or technical schools. Public means that the state where the school is located subsidizes part of the total cost of the education for the benefit of the state's citizens. This is why "in-state" tuition is almost always lower than "out-of-state" tuition and why public school tuition is almost always lower than private school tuition. Some states have a lot of public institutions and have a lot invested in higher education at all levels: community colleges, regional colleges and universities, and research universities. Other states may have only a few publicly supported universities.

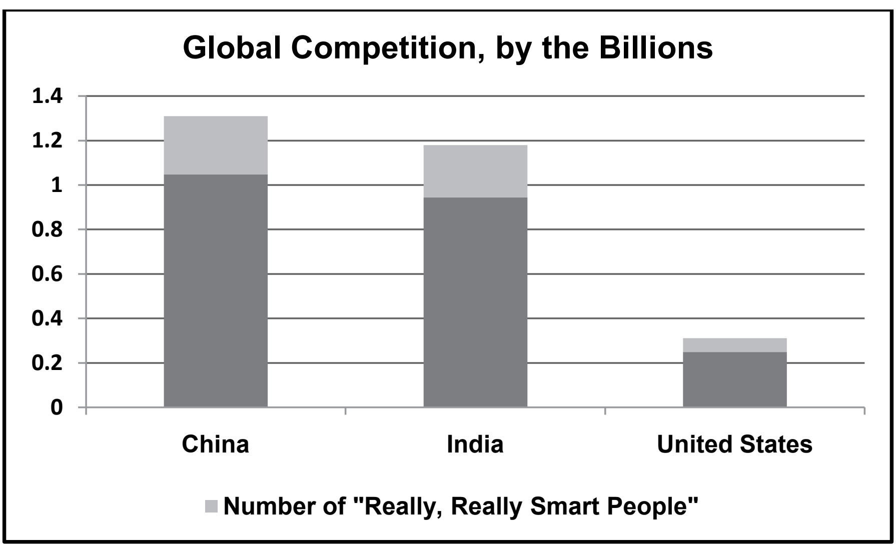
Private – Private institutions can be universities, colleges or technical schools. Private means that these schools do not receive state funding, so they must pay all their bills based on the money they earn through tuition, fees, and other sources (such as endowments and grants). This is why the tuition at these schools is so much higher. For a private school, there is no distinction between a student from the same state or one from another state regarding tuition. Most private institutions are not-for-profit.

Statistics found that when grants were subtracted out, the net price to students attending a four-year public institution was about $15,000 per year, and the net price to students attending a private, not-for profit institution was about $26,000 per year. That's a significant discount off the published price, but it's still a substantial cost.

Difference No. 3: Without advanced education and skill building, you will be less competitive in a global, wired economy.

In his best-selling book *The World Is Flat, New York Times* columnist Thomas Friedman wrote of the growing importance of advanced education and training if U.S. workers are to be competitive against well-trained, well-educated workers throughout the world. The major economies that are joining the United States at the center of the economic stage are China and India. The 21st century global economy is increasingly a numbers game, and the numbers alone are going to raise the stakes for young American workers in ways that many of us can't even imagine. Even with a college degree, competing on the global stage is more difficult all the time. In a globalized economy, the numbers are stacked against us – and here's why.

China has about 1.3 billion people. That's about four times more people than the United States has. India has about 1.1 billion people (more than three times more people than the United States has, many of whom speak English). Together, China and India have at least 2.4 *billion* people compared to the 311 *million* people in the United States. What does this have to do with college today? We'll show you. Let's assume that about 20 percent of any group of people represent "the really, really smart group." In the United States, this would be about 62 million people. But think about it – and use your high school math. The top 20 percent of China and India combined, their "really, really



smart group," would be about 480 million people. *That's more than the entire U.S. population!* So the "average" people in the United States (the other 80 percent of us) are going to be competing head-to-head in the global economy with the top 20 percent of these two new economic competitors for jobs, for entrepreneurial financing, for economic life.

But, you may think, they are over there and we are over here. Sorry! The wired, globally networked, 24/7 world means that people in Chennai, India, can do some of the exact same jobs (such as writing software, doing taxes, creating graphic designs) as someone in Chicago, Illinois. When your parents and grandparents were starting their work lives, they typically only had to compete with other workers in their own neighborhoods. In some industries, they might have competed with workers across the state or even the nation. In general, competition was more limited and more localized. For your generation, competition is unlimited and globalized.

What Does This Mean for You?

For starters, whether you're a great student or an "average" one, you should understand that advanced education – whether that is a bachelor's degree, an associate's degree, a professional degree, a certificate program or an apprenticeship – helps you stay ahead of the curve in this VERY competitive global environment. It's up to you and your generation to leverage the higher educational system in the United States to get ahead and stay ahead in the 21st century marketplace.

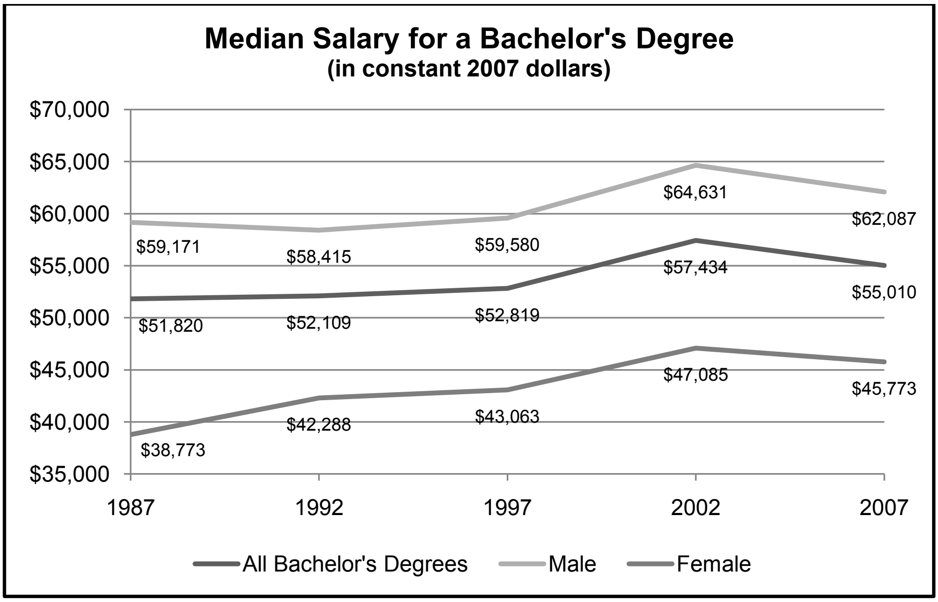
Now, before you start thinking that globalization has just made things harder for you (which it has), it also has brought, and will continue to bring, opportunity. But you need to have the right skills to seize that opportunity. This is one reason why advanced education is more important for you than it may have been for your parents or grandparents.

The challenge of competing head-to-head with such large numbers of smart, talented workers from the other side of the world is daunting. Yet, American young people do have an edge: higher education. China and India are still in the process of developing their higher education infrastructure, while the U.S. system of higher education is, for now, considered among the best in the world. Access to that system provides a competitive advantage. If you don't believe us, ask all the Chinese and Indian students who come to the United States every year to attend college and gain an educational edge in the 21st century global marketplace.

Difference No. 4: The long-term value of an undergraduate college education isn't as high as it used to be.

We can't overstate the importance of being educated beyond the high school level if you are hoping to find a good-paying job in the global knowledge economy of the 21st century. But here is another reality check: As the number of college-educated workers increases, the financial value of a bachelor's degree is likely to *decrease*. At least in terms of earning potential, the standard four-year degree may lose the differentiating punch that it traditionally has had.

This has happened before. Back in the 1970s, the number of college graduates increased as governments promoted greater access to higher education; as a result, the average salary paid to new college graduates decreased relative to what earlier graduates had earned. And the number of students going to college back in the '70s was nowhere near as high as it is today. According to the National Center for Education Statistics, in 1972, about 49 percent of students who completed high school started college the following fall. That translates into about 1.5 million college freshmen. By 2008, 69 percent of students,

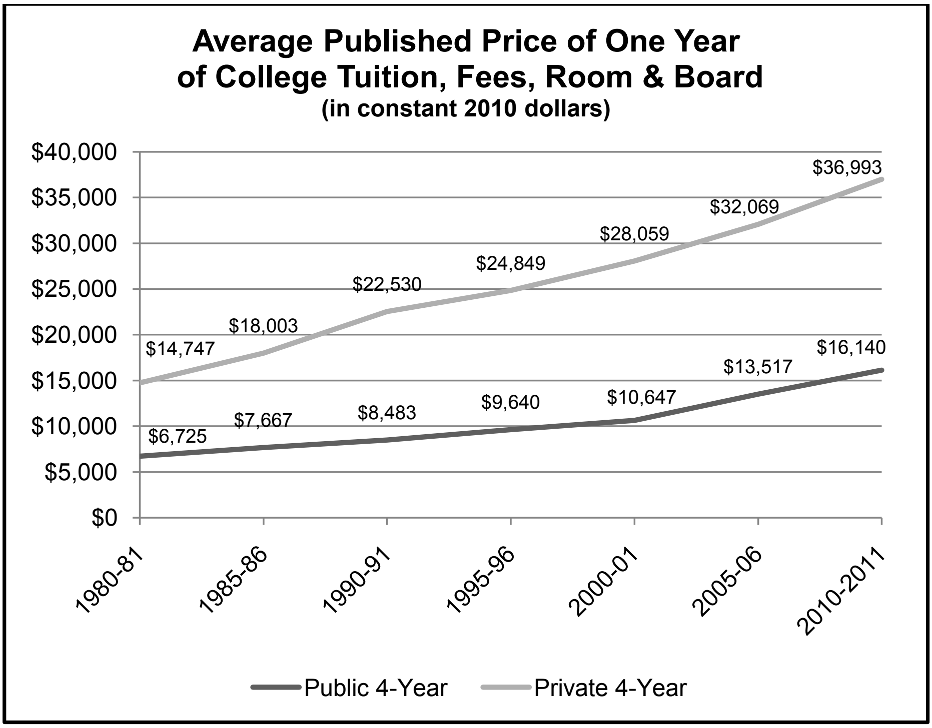


Source: National Center for Education Statistics

or 2.2 million, entered college immediately after graduating high school.

Jobs in the 21st century increasingly demand education beyond high school, but as the four-year college degree becomes more and more common, employers will not pay higher salaries just because you happen to have one. In other words, a bachelor's degree in the 21st century is becoming a commodity. (In economic terms, a commodity refers to something so widely available that its profit margin has shrunk.) Not having a degree is a huge disadvantage, but just having a degree won't give you as much of a competitive edge as it used to. So the difficult truth of the 21st century is that a college degree is more necessary than it has ever been but, at the same time, the potential financial rewards in the marketplace are likely to be lower than they used to be.

As you can see from the graph, the value of a bachelor's degree hit its highest point (in constant 2007 dollars) in 2002 and then began to fall steadily. With the difficult



Source: CollegeBoard.com. "Trends in College Pricing, 2010"

economy of the past few years, there is no expectation that the decline in value will turn around anytime soon. If you look over time, the value of a bachelor's degree (in constant dollars) has gone up only 6 percent in *20 years!*

Compare that to the change in tuition, fees, and room and board prices at most colleges and universities over that same time period. *The average undergraduate rate charged for a full-time year of college is now nearly 90 percent more (in constant 2010 dollars) than it was for the 1986-1987 academic year.*