



Does Attending a More Selective College Equal a Bigger Paycheck?

By Joseph B. Fuller and Frederick M. Hess

March 2020

Key Points

- There is a popular conception that graduation from a more prestigious college equates to higher earnings. The data suggest that narrative deserves a closer look.
- Four years after graduation, median earnings for college graduates from less selective four-year institutions appear broadly similar to those for graduates from more selective schools.
- Four years after graduation, the earnings of graduates from less selective colleges appeared to increase more rapidly than did those from more selective colleges between 1993 and 2008.

There is a widespread presumption that attending a more prestigious college leads to higher earnings. While we know that there is a big earnings premium for completing a college degree for most, the relationship between earnings and the selectivity of an institution is studied less often.¹ Many share the impression that the benefits of graduating from a more selective institution are material and have only grown over time. But is that actually true?

It turns out that the *selectivity* of the degree-granting institution may have less impact on early relative career earnings than many suspect. Of course, we can expect individual earnings to reflect differences in other factors, such as institution type, field of study, and regional labor markets. When looking at selectivity in isolation, however, median salaries for graduates, four years after degree completion, appear surprisingly similar across the selectivity spectrum. Even more telling, it appears that the premium for graduating from a selective institution may have actually *decreased* materially

over time. Further exploration is needed to validate these observations, as there is great variability in the data examined here—especially for open admission and minimally selective schools.

While early career earnings may not necessarily reflect long-term benefits conferred by relationship networks and social capital, the US Department of Education's College Scorecard gives prominent attention to how much students earn in their first year after graduation (whereas this analysis extends that period to four years after graduation). That standard suggests just how much focus is placed on early career earnings. And, by that measure, the importance of the institution's selectivity for a graduate's financial prospects may turn out to be quite modest.

It is widely recognized that most students who complete a degree earn significantly higher salaries than do peers who do not complete college.² In the early years of their career, bachelor's degree-holders graduating in 2012 enjoyed a \$15,000 premium over

peers who had attended (but had not completed) college or who had earned a two-year degree.³ During their career, that translates to an advantage of a half-million dollars or more for those who earn a bachelor's degree.⁴ Given the established benefit to students who complete a degree, we sought to better understand if it matters *where* students do so.

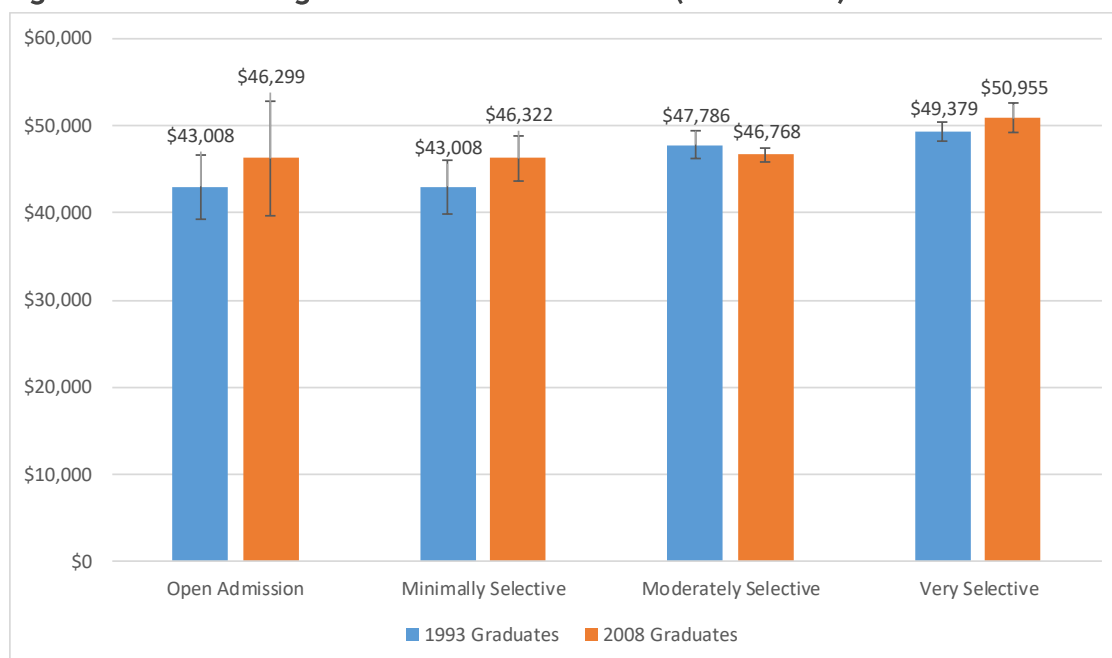
The Association Between Selectivity and Earnings

To get a sense of how selectivity is related to earnings, we looked at median earnings for graduates four years after they completed college—and broke those out based on the selectivity of the college that the students attended. Using a nationally representative data set of bachelor's program graduates, we tracked two cohorts, one consisting of roughly 10,000 1993 graduates and the other of 14,000 2008 graduates.⁵ In investigating the data, we use the selectivity categories created by the National Center for Education Statistics for the Integrated Postsecondary Education Data System. These categories are calculated using admissions rates, ACT scores, and SAT scores, with institutions classified as “open admission,” “minimally selective,” “moderately selective,” or “very selective.”

As shown in Figure 1, four years after graduation, earnings for those who graduated from open admission and minimally selective institutions in 2008 were about the same as for graduates from moderately selective schools, with all three groups earning a median of \$46,000 a year. Graduates from very selective schools did maintain a modest earnings advantage, with graduates earning \$51,000 four years after graduation—amounting to less than a 10 percent premium over open admission institutions. These findings are consistent with existing work that demonstrates a significant earnings advantage for graduates from the most selective schools.⁶ Of course, as noted above, earnings over a longer span could well show more separation based on selectivity.

What we are particularly interested in, however, is whether the earnings accruing to graduates of more and less selective institutions may have changed over time. Between 1993 and 2008, median earnings for graduates from very selective schools increased by \$2,000, those of graduates from moderately selective schools *decreased* \$1,000, and those of graduates from less selective and open admission schools may have risen \$3,000. In other words, very selective institutions saw an increase in median early career earnings of around 4 percent compared to past graduate cohorts, while less selective institutions saw an increase closer to 7 percent.

Figure 1. Median Earnings Four Years After Graduation (2019 Dollars)



Note: Ninety-five percent confidence intervals are displayed.

Source: Authors' calculations using National Center for Education Statistics, "Baccalaureate and Beyond Longitudinal Study," <https://nces.ed.gov/surveys/b&b/>.

Between 1993 and 2008, it appears that *less* selective schools saw the largest earnings gains for graduates. Over that period, the declining returns from moderately selective schools are especially striking, since those schools granted *more than half* of earned bachelor's degrees in 2016. And yet, over time, the returns to a degree from less selective institutions may have been increasing relative to those from more selective ones—with graduates from unheralded open admission institutions potentially earning as much as those from more widely respected, moderately selective institutions.

What Is Going on Here?

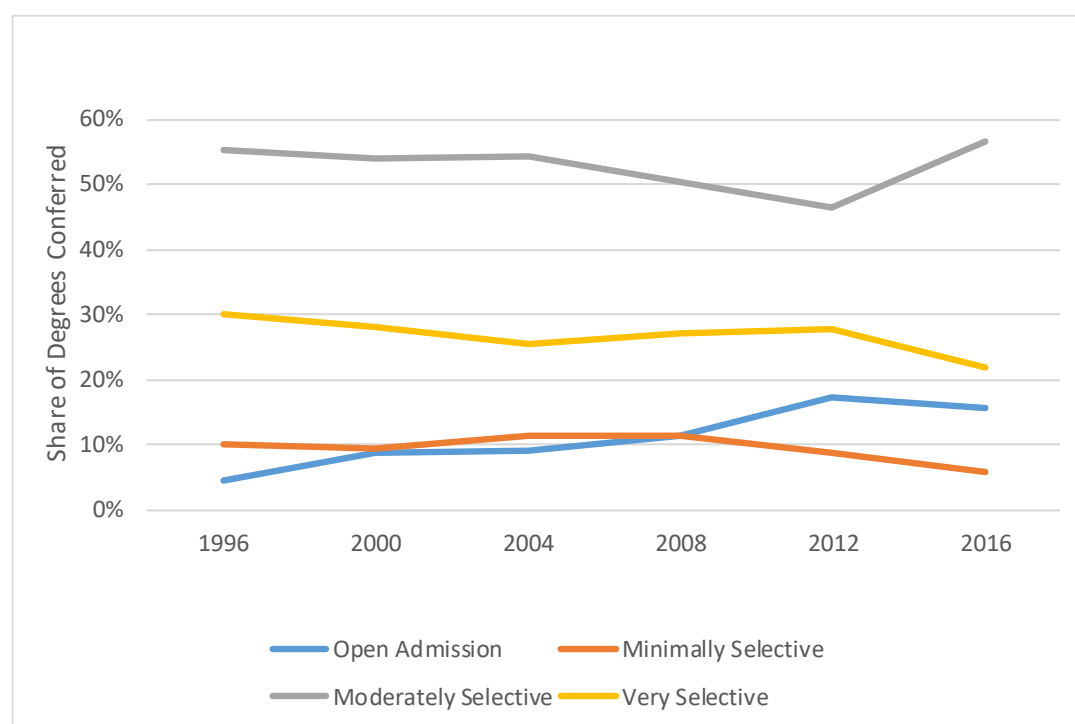
So, what is the catch? Well, although students across the selectivity spectrum may be seeing *broadly similar* financial returns in the early years after graduating, they have *very different* likelihoods of graduating in the first place. Four of five students who attend very selective schools graduate within six years, a figure that falls to three of five students at moderately selective schools, two of five at minimally selective

schools, and just one of five at open admission institutions.⁷

In other words, students who complete their degree at less selective institutions could wind up earning nearly as much in their early years as their peers at the nation's most prestigious schools do, but the likelihood that they will actually complete their degree is dramatically lower.

As Figure 2 illustrates, selective colleges have accounted for a shrinking share of all bachelor's degrees awarded in a given year. For instance, the share of bachelor's degrees earned from the most selective schools declined from 30 percent to 22 percent between 1996 and 2016.⁸ During the same period, the share of degrees earned from minimally selective or open admission schools more than doubled, from less than 10 percent to over 20 percent. In short, it appears that less selective schools are producing a growing share of all degrees. Of course, the composition of the selectivity categories shifts over time, which could conceivably affect the findings in various ways.

Figure 2. Share of Bachelor's Degrees Earned by Selectivity



Note: Interpret 1996 "Open Admission Schools" data with caution. Estimate is unstable due to a large standard error.
Source: Authors' calculations using National Center for Education Statistics, "National Postsecondary Student Aid Survey," <https://nces.ed.gov/surveys/npsas/>.

Conclusion

In the era of Varsity Blues, there is a dominant cultural narrative: The nation's most selective colleges offer extraordinary access to financial opportunity. That story, however, may be more complex than is recognized.

These findings might indicate that a cultural emphasis on prestige and selectivity may be diverting our attention away from considerations that are actually crucial to students' success. This makes clear the importance of the current focus on completion. It is also worth asking why a college degree—

from seemingly *any* kind of institution—carries the weight it does in the labor market. Is this because all degrees signal some particular bundle of skills and capabilities or perhaps because of other forces at work in the hiring process?

These questions are all well worth asking. But, perhaps most importantly, these findings suggest that we should be more measured when discussing the relationship of institutional prestige and earnings and what it means for efforts to promote completion, access, and opportunity.

About the Authors

Joseph B. Fuller is a visiting fellow at the American Enterprise Institute. He is also a professor of management practice and codirector of the Project on Managing the Future of Work at Harvard Business School.

Frederick M. Hess is a resident scholar and the director of education policy studies at the American Enterprise Institute.

Notes

1. For examples of prior work on the relationship between earnings and institution selectivity, see Dirk Witteveen and Paul Attewell, "The Earnings Payoff from Attending a Selective College," *Social Science Research* 66 (2017): 154–69, https://www.researchgate.net/profile/Dirk_Witteveen/publication/313126425_The_earnings_payoff_from_attending_a_selective_college/links/5b47doedaca272c6093b76e0/The-earnings-payoff-from-attending-a-selective-college.pdf; and Rajashri Chakrabarti and Michelle Jiang, "Education's Role in Earnings, Employment, and Economic Mobility," Federal Reserve Bank of New York, September 5, 2018, <https://libertystreeteconomics.newyorkfed.org/2018/09/education-role-in-earnings-employment-and-economic-mobility.html>.
2. For examples of prior work demonstrating earnings premiums for college graduates, see David Card, "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems," *Econometrica* 69 (September 2001): 1127–403, <https://onlinelibrary.wiley.com/doi/abs/10.1111/1468-0262.00237>; and Douglas Webber, "The Lifetime Earnings Premia of Different Majors: Correcting for Selection Based on Cognitive, Noncognitive, and Unobserved Factors," *Labor Economics* 28 (June 2014): 13–23, <https://www.sciencedirect.com/science/article/abs/pii/S0927537114000281>.
3. Pew Research Center, "The Rising Cost of Not Going to College," February 11, 2014, <https://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/>.
4. Anthony P. Carnevale, Stephen J. Rose, and Ban Cheah, "The College Payoff: Education, Occupations, Lifetime Earnings," Georgetown University, Center on Education and the Workforce, August 5, 2011, <https://cew.georgetown.edu/cew-reports/the-college-payoff/>.
5. National Center for Education Statistics, "Baccalaureate and Beyond Longitudinal Survey," <https://nces.ed.gov/surveys/b&b/>. Due to changes in baccalaureate and beyond variables over time, our analysis only includes graduates who earn a salary.
6. Witteveen and Attewell, "The Earnings Payoff from Attending a Selective College."
7. Authors' calculations using National Center for Education Statistics, "Beginning Postsecondary Students (BPS) Longitudinal Study," <https://nces.ed.gov/statprog/handbook/bps.asp>.
8. Authors' calculations using National Center for Education Statistics, "National Postsecondary Student Aid Survey (NPSAS)," <https://nces.ed.gov/surveys/npsas/>.

© 2020 by the American Enterprise Institute. All rights reserved.

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed here are those of the author(s).