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Measuring College Prestige vs. Cost of Enrollment

By PAUL SULLIVAN

Having a choice is generally a good thing, and being able to choose among several college acceptances should be a wonderful thing indeed.

But let's face it: the cost of a college education these days ranges from expensive to obscenely expensive. So the decision is likely to be tougher and more emotional than most parents and children imagined as they weigh offers from colleges that have given real financial aid against others that are offering just loans.

While some students will be able to go to college only if they receive financial aid and others have the resources to go wherever they want, most fall into a middle group that has to answer this question: Do they try to pay for a college that gave them little financial aid, even if it requires borrowing money or using up their savings, because it is perceived to be better, or do they opt for a less prestigious college that offered a merit scholarship and would require little, if any borrowing? It's not an easy decision.

"It's not just the sticker price and the net costs," said Sarah Turner, professor of economics and education at the University of Virginia. She added, "How likely is it that you will get into medical school or law school or have some other opportunities" if you choose the more prestigious college?

That's the rational argument. In these decisions, though, emotion often wins out, and it can lead to the slippery slope of excessive borrowing.

"Families really need to look realistically at what they can afford," said Lynn O'Shaughnessy, author of "The College Solution" and a blog of the same name. "Sometimes, they'll look at a package and say, 'It's not enough, but we can sacrifice and send our children to the school they really want to go to.' They have to realize this a four- to five-year commitment."

Ms. O'Shaughnessy said she was trying to counsel a father in New Jersey who was on the verge of making a horrendous financial decision. His daughter had received a full scholarship to attend Rutgers University but her first choice was New York University, which, even with financial aid, would cost the family $32,000 a year. The father, an engineer who was also out of work, said he was going to send her to N.Y.U.

“I can’t even believe he’s considering it,” she said. “I was floored. It’s irrational.”

But, unfortunately, that father is not so unusual. While it is hard not to give our children what they want, here are some ideas on how to think about this financial dilemma without going broke — or at least know why you will be broke.

The competition to get into top colleges is fierce in many cities and towns in America, but nowhere is it more so that at the country’s elite institutions. And many parents feel compelled to reward all that hard work.

The debate between paying full tuition at an elite institution or accepting a merit scholarship from someplace less prestigious “is a conversation we have all the time,” said James Conroy, chairman of post-high-school counseling at New Trier Township High School in Winnetka, Ill., an affluent suburb in Chicago. “It’s a tough conversation because what it gets down to is the values of the family.”

But he said many parents did not realize that their children were going up against other children who were identical to them — at least on paper. “There are 100 schools that we talk about in this office day after day after day,” he said. “But those are the same schools that every New Trier across the country talks about.”

Prestige has always been part of the equation, but he said he had expected parents to start looking for value in colleges after the 2008 financial collapse. Instead, parents have come to see the elite universities as the only way to give their children a chance at success. They feel jobs are hard to come by and companies are only going to look to hire at the elite universities.

“Whether it’s true or not, I have no evidence,” he said. “But that was what was out on the bongo drums in the community.”

Ms. O’Shaughnessy knows this thinking well. The New Jersey father she described has many contemporaries willing to try to pay for something they could not afford. And there’s no guarantee, she said, that N.Y.U. will bring his daughter greater success.

“Frankly, I think that’s why East Coast schools that aren’t in the top tier but are in cities can get away with charging outrageous amounts of money and giving mediocre financial aid packages,” Ms. O’Shaughnessy said. “Students fall in love with these schools, and there are parents who are willing to sacrifice beyond all rational reasoning.”

But economists are not sure this trade-off is worth it. In two much-discussed studies about the value of a degree from an elite college — one with people who graduated in the 1970s and the other with more recent graduates — Alan B. Krueger, then an economist at Princeton University, and Stacy Berg Dale, a senior researcher at Mathematica Policy

Research, found that equally smart students had about the same earnings whether or not they went to top-tier colleges. The big difference, their studies found, came from minority and low-income students who went to top-tier colleges: They did better later on.

Lawrence Katz, a professor of economics at Harvard University, said he could envision circumstances where there might be a benefit to attending the more elite institution, but he could see more instances when paying to go to a large, nonelite university was a waste of money.

“The difference between going to Swarthmore and Penn State is greater today than it was in 1976 because there are higher returns to all upper-end skills and connections,” he said. By contrast, a larger, private, expensive nonelite university was not necessarily better than “the flagship campus of a top-notch state university.”

For parents willing to pay more for that nonelite, private university, Professor Katz said they should not think about it as an investment but as a form of consumption. “If your kid is dead set on it, you can splurge on it,” he said. “But you should view it like a wedding or a vacation. There are plenty of things that you can do that make your life better if you’re upper middle class, and that’s fine.”

This spending becomes problematic, of course, when parents cannot really afford to pay and, worse, Professor Turner said, when students borrow heavily without thinking about the kind of life they want after graduation.

“Am I certain I’m going to end up on Wall Street?” she said. “If you know that’s what you want to do, borrow and go to N.Y.U. But borrowing does not make a lot of sense if you want to go to culinary school.”

In most cases, though, the decision is what Professor Turner called, “a choice under uncertainty”: few high school seniors really know what they want to do and, by extension, what they will earn.

Parents and their children trying to make the decision now need to be honest with themselves, Ms. O’Shaughnessy said.

If they decide to pay more than they can afford for the coming school year, they need to remember that they’re looking at a four-year expense and that given increasing tuition, the total cost will be more than four times the cost of freshman year. “If you have a smart student who can get into some of these expensive schools, they’ll do well in other places,” she said.

Parents and students also need to look at the graduation rates of the colleges they're considering. While taking on a lot of debt is not good, taking on a lot of debt and not graduating from college is even worse.

And if the students received any merit scholarships, they should consider them. They are a sign that a college really wants the student.

For parents who will be in this situation in a few years, you could do worse than take a page from the playbook of James Montague, director of guidance and support services at Boston Latin School, the oldest public school in the United States and one that selects students based on exams and grades.

Mr. Montague said his students, a third of whom are on subsidized lunch programs, do not often have the options of their peers at wealthy suburban schools. Their parents are not going to be able to find or borrow $30,000 a year for four years.

To prevent disappointment — or to force the students who want to be bakers to go to work on Wall Street to pay back their loans — he said he encouraged students to apply to at least one state college that would give them merit aid and to stick to the federally subsidized loan limits.

"Our students are reasonable about this," he said, adding, "Our students are very resilient. They're going to make it work."

And ultimately, that will be what determines success long after a college is chosen.

This article has been revised to reflect the following correction:

Correction: April 19, 2013

An earlier version of this column misspelled the surname of the Princeton University economist who co-wrote a study about the value of a degree from an elite college. He is Alan B. Krueger, not Kreuger.