The Value of a College Degree Is Diminishing Over Time

How Valuable Is a College Degree?, 2016
From Opposing Viewpoints in Context

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There is an underemployment problem, with college graduates performing jobs for which they are overqualified. But there is also an overinvestment problem, with society placing too many resources into a college education system that is shielded from market forces. The confluence of these forces suggests that the value of a college education is diminishing over time.

The mismatch between the educational requirements for various occupations and the amount of education obtained by workers is large and growing significantly over time. The problem can be viewed two ways. In one sense, we have an "underemployment" problem: College graduates are underemployed, performing jobs which require vastly less educational tools than they possess. The flip side of that, though, is that we have an "overinvestment" problem: We are churning out far more college graduates than required by labor-market imperatives. The supply of jobs requiring college degrees is growing more slowly than the supply of those holding such degrees. Hence, more and more college graduates are crowding out high-school graduates in such blue-collar, low-skilled jobs as taxi driver, firefighter, and retail sales clerks. Credential inflation is pervasive. And, as [Richard] Hernstein and [Charles] Murray noted nearly two decades ago, one by-product of this phenomenon is a dumbing down of the college curriculum; as they put it "credentialism ... is part of the problem, not the solution."

The Wisdom of College for All

That suggests the earnings advantage associated with a bachelor's degree will change over time. By one way of looking at it, the college degree becomes less worthwhile financially: If one compares earnings of those with bachelor's degrees with that of all workers (not merely high-school graduates), the day may come when the bachelor's degree will pay less than that of all workers, as the proportion of workers with more than bachelor's degrees comes close to approximating that of those with less than a four-year diploma. The college degree will be the new normal, and the credential inflation leading to more and more college-educated taxi drivers will continue to escalate. Yet this is not to say going to college is unnecessary: Indeed, it would be almost impossible to get a job without a degree. Vocational success would require even more education.

Enrollments will fall, and in time the rate of return on college investments will increase again as the labor-market disconnect problem is reduced.

But at what cost? Can we afford to expend $100,000 or more in resources giving kids a college degree, only to see them take taxi driver jobs for which the college education added hardly a scintilla
of employment skill? Can we afford to lose the labor services of 18-to-22 year olds going to college for little employment advantages, persons who could start driving a taxi or working as a bank teller at 18 instead of 22? In an era where the worker-to-dependent ratio is rapidly falling, the underemployed college graduate is an expensive luxury we can ill afford as a nation. To be sure, given wide variations in earnings by college attended and by major, generalizations are dangerous, and maybe some forms of college training and some institutions deserve greater support than others. Besides, it is not as if reducing societal investment in higher education would necessarily adversely affect national output; as [education writer and consultant] Paul Barton observes, despite the handwringing in the past about an emerging shortage of highly educated workers in the U.S., "since 1995, productivity has accelerated, with no demonstrable improvement in workforce skills or acceleration in job requirements during the period."

All of this calls into question the wisdom of the "college for all" movement. Does it make sense to become the world's leader again in the proportion of young adults with college degrees? Is the goal of individuals like President [Barack] Obama or groups like the Lumina Foundation to increase college degree attainment desirable? Should we look for new and cheaper ways to assure employee competency? Should we invest less in four-year degree programs and more in cheaper training, including high-school vocational education that once was fashionable? Perhaps the federal government should reduce its involvement in the higher-education business, much like some states seem to be starting to do out of fiscal imperatives imposed by balanced-budget requirements that the federal government does not face. If fewer students could get Pell Grants or subsidized student loans, enrollments might very well fall, an outcome we perceive not to be a bad thing from a labor-market perspective.

**A Shielded Overinvestment**

That raises questions that go beyond higher education. As the number of years of education of workers rises in virtually all non-professional and technical jobs, is the reason ultimately that really it takes, say, 14 or 15 years of schooling to offer the same learning that previously was accomplished in 12 years? Is the deterioration in the quality of our primary and secondary education a contributing factor in the credential inflation obvious at the postsecondary level? That suggests there may be two major economic issues facing higher education. First, it is too costly, too inefficient, too shielded from the useful market forces of "creative destruction." Second, because of massive overinvestment reflecting indifference to labor-market realities, we are vastly wasting scarce resources, both public and private.

To be sure, if left alone, market forces will likely solve the problem. Reading stories of underemployed college graduates with massive debt, more will start rejecting the mantra that everyone should go to college. Enrollments will fall, and in time the rate of return on college investments will increase again as the labor-market disconnect problem is reduced. There are already signs that is beginning to happen. The *Wall Street Journal* recently proclaimed, "demand for four-year college degrees is softening." Yet public policies such as massive federal loan subsidies often distort outcomes and prevent a stable and economically effective equilibrium position from being reached. As someone once joked, "when we see light at the end of the tunnel, the government adds more tunnel."
A decade ago, while contemplating calls in Britain for increased public investment in education (rhetoric that is very similar, if not identical, to the rhetoric today in the United States), the British educator Alison Wolf perceptively opined,

Education is big because it is seen as the engine for economic growth, a sure-fire route to future prosperity and victory in a global competition ... the belief in education for growth runs deep and wide beyond our political classes, replacing socialism as the great secular faith of our age.

Economists for generations have long accepted the law of diminishing returns—when one adds more and more resources, at some point the marginal contribution to output falls. The law applies to education as to almost everything in life. One manifestation of it in American university life is the underemployment of college graduates; we might be seriously overinvested in higher education. This study adds to that concern, and further suggests the common assumption that increased investment in higher education promotes economic growth is highly questionable.

**Further Readings**

**Books**


**Periodicals and Internet Sources**


• *Economist* "Is College Worth It?," April 5, 2014.


• Chris Isaac "Voices: Don't Waste Your Time on Easy Classes," *USA Today*, October 23, 2014.


• Megan McArdle "Megan McArdle on the Coming Burst of the College Bubble," Newsweek, September 8, 2012.


• Sophie Quinton "Why You Might Be Paying Student Loans Until You Retire (and Beyond)," National Journal, September 18, 2014.


• Jordan Weissmann "Our Student Loan System Is Broken, and These New Statistics Prove It," Atlantic, August 8, 2013.


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