January 9, 2014

Peter Schiff says the party will be over soon.
... Based on nothing but pure optimism, the market believes that the Fed can somehow contract its $4 trillion balance sheet without pushing up rates to the point where asset prices are threatened, or where debt service costs become too big a burden for debtors to bear. Such faith would have been impossible to achieve in the time before the crash, when most assumed that the laws of supply and demand functioned in the market for mortgage and government debt. Now we "know" that the demand is endless. This mistakes temporary geo-political paralysis and financial sleepwalking for a fundamental suspension of reality.

The more likely truth is that this widespread mistake will allow us to drift into the next crisis. Now that the European Union has survived its monetary challenge, (the surging euro was one of the surprise stories of 2013), and the developing Asian economies have no immediate plans to stop their currencies from rising against the dollar, there is little reason to expect that the dollar will rally in the coming years. In fact, there has been little notice taken of the 5% decline in the dollar index since a high in July. Similarly, few have sounded alarm bells about the surge in yields of Treasury debt, with 10-year rates flirting with 3% for the first time in two years.

If interest rates rise much further, to perhaps 4% or 5%, the stock and real estate markets will be placed under pressure, and the Fed and the other "Too Big to Fail" banks will see considerable losses on their portfolios of Treasury and mortgage-backed bonds. Such developments could trigger widespread economic turmoil, forcing the Fed to expand its QE purchases. Such an embarrassing reversal would add to selling pressure on the dollar, and might potentially trigger an exodus of foreign investment and an increase in import prices. I believe that nothing can prevent these trends from continuing to the point where a crisis will be reached. It's extremely difficult to construct a logical argument that avoids this outcome, but that hasn't stopped our best and brightest forecasters from doing just that.

So while the hallelujah chorus is ringing in the New Year with a full-throated crescendo, don't be surprised by sour notes that will bubble to the top with increasing frequency. Ultimately the power of monetary policy to engineer a real economy will be proven to be just as ridiculous as the claims that housing prices must always go up.

Peter Schiff was notable for predicting the 2008 collapse. He did that in 2006 and 2007. **Here's a video of him getting ridiculed by all the bien pensants in the financial media**.

Roger Simon posts on Dem losers.
It shouldn't be that much of an embarrassment to lose a U.S. presidential election. After all, you made it to the top of the ticket in one of the two major parties in the most powerful country on Earth (at least for now).

Yet, if you judge by the post-defeat activities of Al Gore and John Kerry, you would think their losses were a personal disaster of untold proportions that had to be made up for in some monumental manner that would cement their (positive) reputations into posterity. Call it Extreme Narcissism Deficit Disorder (ENDD). And the closer the election, the more severe the symptoms.

These days, both men's compulsive need to make their mark against all odds are highly on display — and very much to all of our detriments.

The more ludicrous example — when the wind chill factor is approaching record lows of minus fifty and a group of so-called climate scientists have been stuck in Antarctic ice for weeks with much of the MSM trying desperately to hide that they were there to investigate global warming in the first place – is Mr. Gore's determination to insist that anthropogenic global warming is settled science, that the world must stop everything it's doing and devote its scant economic resources to preventing this looming catastrophe (not to mention filling Mr. Gore's bank account). Only an imbecile, a corrupt UN diplomat, a New York Times or Guardian reporter, or a scientist on the dole could believe that.

Scratch that. A number of members of Congress plus our president seem to sort of believe it too. ...

... The bigger problem is the other presidential loser who, also at this moment in time, is wielding a much greater influence in the world, thanks to our president — John Kerry. The nonsensical and actually inscrutable Obama foreign policy from Clinton through Kerry has taken our country — and the world — from bad to worse. But an announcement from Mr. Kerry today trumped all.

Today our secretary of State informed us that one of the countries at the table at the Syria peace talks this month might be… Iran. ...

Bret Stephens with a history lesson about Frank Kellogg U. S. Secretary of State who abolished war in 1928 when 62 countries signed the Kellogg-Briand Pact. Similar foolishness abounds today in John Kerry's wake.
An American secretary of state was once awarded a Nobel Peace Prize for outlawing war. In describing how 62 countries came to sign (and 85 U.S. senators to ratify) the 1928 Kellogg-Briand Pact, the Scottish historian D.W. Brogan observed: "The United States, which had abolished the evils of drink by the Eighteenth Amendment, invited the world to abolish war by taking the pledge. The world, not quite daring to believe or doubt, obeyed."

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Geneva II, as the Syrian talks are known in diplospeak, is based on a June 2012 international communiqué calling on the Syrian government and the opposition to come together and form a "transitional" government. When the communiqué was issued, then-Secretary of State Hillary Clinton insisted that its terms barred Bashar Assad from remaining in power, while Sergei Lavrov, her Russian counterpart, insisted the contrary.

Otherwise, solid agreement.

Eighteen months, multiple chemical attacks, a spiraling regional crisis, tens of thousands dead and two million refugees later, we come to Geneva II. ...

Walter Russell Mead says the higher ed bubble will burst soon too.

Megan McArdle has an excellent essay up at Bloomberg about the sorry state of the job market for PhDs that's very much worth your time. The crux of her argument:

"The fundamental issue in the academic job market is not that administrators are cheap and greedy, or that adjuncts lack a union. It's that there are many more people who want to be research professors than there are jobs for them. And since all those people have invested the better part of a decade in earning their job qualifications, they will hang around on the edges of academia rather than trying to start over. Such a gigantic glut of labor is bound to push down wages and working conditions."

The business model for PhDs is functionally off. Graduate schools are minting far more PhDs than the market can absorb.

The problem as we see it is that the post-World War 2 university system was built on the assumption of an ever expanding population of students needing more and more higher ed. Therefore there was a need for each generation to produce more professors than the last. (This is not all that dissimilar, by the way, to the way many pension systems and social programs like Medicaid were built on the assumption that a bigger generation would roll around to pay the bills for the current enrollees.)

The situation is just as bad for bachelor degrees. **WSJ OpEd** with the story.

... A college degree's declining value is even more pronounced for younger Americans. According to data collected by the College Board, for those in the 25-34 age range the differential between college graduate and high school graduate earnings fell 11% for men, to $18,303 from $20,623. The decline for women was an extraordinary 19.7%, to $14,868 from $18,525.

Meanwhile, the cost of college has increased 16.5% in 2012 dollars since 2006, according to the Bureau of Labor Statistics' higher education tuition-fee index. Aggressive tuition discounting from universities has mitigated the hike, but not enough to offset the clear inflation-adjusted increase. Even worse, the lousy economy has caused household income levels to fall, limiting a family's ability to finance a degree.

This phenomenon leads to underemployment. A study I conducted with my colleague Jonathan Robe, the 2013 Center for College Affordability and Productivity report, found explosive growth in the number of college graduates taking relatively unskilled jobs. We now have more college graduates working in retail than soldiers in the U.S. Army, and more janitors with bachelor's degrees than chemists. In 1970, less than 1% of taxi drivers had college degrees. Four decades later, more than 15% do.

This is only partly the result of the Great Recession and botched public policies that have failed to produce employment growth. It's also the result of an academic arms race in which *universities have spent exorbitant sums on luxury dormitories, climbing walls, athletic subsidies and bureaucratic bloat. More significantly, it's the result of sending more high-school graduates to college than professional fields can accommodate.*

In 1970, when 11% of adult Americans had bachelor's degrees or more, degree holders were viewed as the nation's best and brightest. Today, with over 30% with degrees, a significant portion of college graduates are similar to the average American—not demonstrably smarter or more disciplined. Declining academic standards and grade inflation add to employers' perceptions that college degrees say little about job readiness. ...

Good day of Cartoons.

Real Clear Markets

Are Some Bubbles Too Big to Pop?

The power of monetary policy to engineer a real economy will be proven to be just as ridiculous as the claims that housing prices must always go up.

by Peter Schiff

Most economic observers are predicting that 2014 will be the year in which the United States finally shrugs off the persistent malaise of the Great Recession. As we embark on this sunny new chapter, we may ask what wisdom the five-year trauma has delivered. Some big thinkers have declared that the episode has forever tarnished freewheeling American capitalism and the myth of Wall Street invincibility. In contrast, I believe that the episode has, for the moment, established supreme confidence in the powers of monetary policy to keep the economy afloat and to keep a floor under asset prices, even in the worst of circumstances. This represents a dramatic change from where we were in the beginning of 2008, and unfortunately gives us the false confidence needed to sail blindly into the next crisis.

Although the media likes to forget, there was indeed a strong minority of bearish investors who did not drink the Goldilocks Kool-Aid of the pre-crisis era. As the Dow moved up in 2006 and 2007 so did gold, even though a rising gold price was supposed to be a sign of economic uncertainty. The counter intuitive gold surge in those years resulted from growing concern among a committed minority that an economic crisis was looming. In the immediate aftermath of the crisis in 2009 and 2010, gold shifted into an even higher gear when those investors became doubly convinced that the extraordinary monetary measures devised by the Fed to combat the recession would fail to stop the economic free fall and would instead kick off a new era of inflation and dollar weakness. This caused many who had been gold naysayers and economic cheerleaders to reluctantly jump on the gold band wagon as well.

But three years later, after a period of monetary activism that went far beyond what most bears had predicted, the economy has apparently turned the corner. The Dow has surged to record levels, inflation (at least the way it is currently being measured) and interest rates have stayed relatively low, and the dollar has largely maintained its value. Ironically, many of those former

Nervous Nellies, who correctly identified the problems in advance, have thrown in the towel and concluded that their fears of out of control monetary policy were misplaced. While many of those who had always placed their faith in the Fed (but who had failed - as did Fed leadership - from seeing the crisis in advance) are more confident than ever that the Central Bank can save us from the worst.

A primary element of this new faith is that the Fed can sustain any number of asset bubbles if it simply supplies enough air in the form of freshly minted QE cash and zero percent interest. It's as if the concept of "too big to fail" has evolved into the belief that some bubbles are too big to pop. The warnings delivered by those of us who still understand the negative consequences of such policy have been silenced by the triumphant Dow.

The proof of this shift in sentiment can be seen in the current gold market. If the conditions of 2013 (in which the Federal Government serially failed to control a runaway debt problem, while the Federal Reserve persisted with an $85 billion per month bond buying program and signaled zero interest rates for the foreseeable future)could have been described to a 2007 investor, their conclusions would have most likely been obvious: back up the truck and buy gold. Instead, gold tumbled more than 27% over the course of the year. And despite the fact that 2013 was the first down year for gold in 13 years, one would be hard pressed now to find any mainstream analyst who describes the current three year lows as a buying opportunity. Instead, gold is the redheaded stepchild of the investment world.

This change can only be explained by the growing acceptance of monetary policy as the magic elixir that Keynesians have always claimed it to be. This blind faith has prevented investors from seeing the obvious economic crises that may lay ahead. Over the past five years the economy has become increasingly addicted to low interest rates, which underlies the recent surge in stock prices. Low borrowing costs have inflated corporate profits and have made possible the wave of record stock buybacks. The same is true of the real estate market, which has been buoyed by record low interest rates and a wave of institutional investors using historically easy financing to buy single-family houses in order to rent to average Americans who can no longer afford to buy.

But somehow investors have failed to grasp that the low interest rates are the direct result of the Fed's Quantitative Easing program, which most assume will be wound down in this year. In order to maintain the current optimism, one must assume that the Fed can exit the bond buying business (where it is currently the largest player) without pushing up rates to the point that these markets are severely impacted. This ascribes almost superhuman powers to the Fed. But that type of faith is now the norm.

Market observers have taken the December Fed statement, in which it announced its long-awaited intention to begin tapering (by $10 billion per month), as proof that the dangers are behind us, rather than ahead. They argue that the QE has now gone away without causing turmoil in the markets or a spike in rates. But this ignores the fact that the taper itself has not even begun, and that the Fed has only committed to a $10 billion reduction later this month. In fact, it is arguable that monetary policy is looser now than it was before the announcement.

Based on nothing but pure optimism, the market believes that the Fed can somehow contract its $4 trillion balance sheet without pushing up rates to the point where asset prices are threatened, or where debt service costs become too big a burden for debtors to bear. Such faith would have been impossible to achieve in the time before the crash, when most assumed that the laws of supply and demand functioned in the market for mortgage and government debt. Now we "know" that the demand is endless. This mistakes temporary geo-political paralysis and financial sleepwalking for a fundamental suspension of reality.

The more likely truth is that this widespread mistake will allow us to drift into the next crisis. Now that the European Union has survived its monetary challenge, (the surging euro was one of the surprise stories of 2013), and the developing Asian economies have no immediate plans to stop their currencies from rising against the dollar, there is little reason to expect that the dollar will rally in the coming years. In fact, there has been little notice taken of the 5% decline in the dollar index since a high in July. Similarly, few have sounded alarm bells about the surge in yields of Treasury debt, with 10-year rates flirting with 3% for the first time in two years.

If interest rates rise much further, to perhaps 4% or 5%, the stock and real estate markets will be placed under pressure, and the Fed and the other "Too Big to Fail" banks will see considerable losses on their portfolios of Treasury and mortgage-backed bonds. Such developments could trigger widespread economic turmoil, forcing the Fed to expand its QE purchases. Such an embarrassing reversal would add to selling pressure on the dollar, and might potentially trigger an exodus of foreign investment and an increase in import prices. I believe that nothing can prevent these trends from continuing to the point where a crisis will be reached. It's extremely difficult to construct a logical argument that avoids this outcome, but that hasn't stopped our best and brightest forecasters from doing just that.

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Peter Schiff is the CEO and Chief Global Strategist of Euro Pacific Capital, best-selling author and host of syndicated Peter Schiff Show.

Roger L. Simon
Gore and Kerry: The Perils of Presidential Losers

It shouldn’t be that much of an embarrassment to lose a U.S. presidential election. After all, you made it to the top of the ticket in one of the two major parties in the most powerful country on Earth (at least for now).

Yet, if you judge by the post-defeat activities of Al Gore and John Kerry, you wold think their losses were a personal disaster of untold proportions that had to be made up for in some monumental manner that would cement their (positive) reputations into posterity. Call it Extreme Narcissism Deficit Disorder (ENDD). And the closer the election, the more severe the symptoms.

These days, both men’s compulsive need to make their mark against all odds are highly on display — and very much to all of our detriments.

The more ludicrous example — when the wind chill factor is approaching record lows of minus fifty and a group of so-called climate scientists have been stuck in Antarctic ice for weeks with much of the MSM trying desperately to hide that they were there to investigate global warming in the first place – is Mr. Gore's determination to insist that anthropogenic global warming is settled science, that the the world must stop everything it's doing and devote its scant economic resources to preventing this looming catastrophe (not to mention filling Mr. Gore's bank account). Only an imbecile, a corrupt UN diplomat, a *New York Times* or *Guardian* reporter, or a scientist on the dole could believe that.

Scratch that. A number of members of Congress plus our president seem to sort of believe it too. Actually, I think they're pretending. Most of them don't have the scientific background to have an opinion anyway. (It would be amusing to stand up in Congress and ask how many could define the Second Law of Thermodynamics — high school physics. Would anyone bet the number of correct answers would top ten percent?) Nevertheless, they have "considered" opinions on global warming or climate change or whatever term is *au courant* (stormy weather?). Many say it's perilous and pay lip service to its gravity to appease the likes of pothead environmentalists in Humboldt County who flunked seventh grade math. They're voters, aren't they? It really is as ridiculous as that.

Fortunately, fewer people are taking Gore seriously now. He didn't even have the courage of his own convictions to make a small bet on his blowhard pronouncements.

The bigger problem is the other presidential loser who, also at this moment in time, is wielding a much greater influence in the world, thanks to our president — John Kerry. The nonsensical and actually inscrutable Obama foreign policy from Clinton through Kerry has taken our country — and the world — from bad to worse. But an announcement from Mr. Kerry today trumped all.

Today our secretary of State informed us that one of the countries at the table at the Syria peace talks this month might be… Iran.

Yes, you read that correctly, the Islamic Republic of Iran, not Israel, that happens to be a neighbor of Syria and our ally. The Jewish state, although it has saved numerous wounded Syrians, is not to be trusted in such a situation. That's the same Iran that has been upgrading their nuclear enrichment facilities nonstop since the supposed agreement and that is now enjoying an, albeit minor, economic boom because of the loosening of sanctions.

Talk about dismissing your friends while rewarding your enemies. Neville Chamberlain had nothing on John Kerry. In fact, when Chamberlain appeased Hitler at least Germany had a more powerful war machine than England. These days the U.S. is still by far the strongest military on the planet and yet Kerry behaves as he does. Go figure.

That's leaving aside all the other foreign policy botches too numerous to mention. (Has there been a success?) So I have a suggestion. Next time we have a presidential election, let's give the loser an immediate prize so he doesn't feel bad. It's unfortunate we can't give him the Nobel, but something else. We can make something up, but it has to be grand, like an Oscar but two or three times as large. Coronate him if we have to. Do anything for the loser, just so he doesn't feel bad and leaves us alone. That way we don't have to deal with the fruits of his ENDD.

By the way, it's worth noting one presidential loser who has broken this rule and behaved most graciously in the case of Melissa Harris-Perry: Mitt Romney. (Maybe what we're seeing is he shouldn't have been a loser. I wouldn't be surprised if a lot of America is feeling that way right now.)

UPDATE: Evidently the Iranians have said "no" to Kerry regarding their participation in Syrian peace talks.

WSJ

John Kerry, Secretary of Unreality

The secretary of state hasn't outlawed war, as Frank Kellogg did in 1928, but his Mideast initiatives are a good imitation.

by Bret Stephens

An American secretary of state was once awarded a Nobel Peace Prize for outlawing war. In describing how 62 countries came to sign (and 85 U.S. senators to ratify) the 1928 Kellogg-Briand Pact, the Scottish historian D.W. Brogan observed: "The United States, which had abolished the evils of drink by the Eighteenth Amendment, invited the world to abolish war by taking the pledge. The world, not quite daring to believe or doubt, obeyed."

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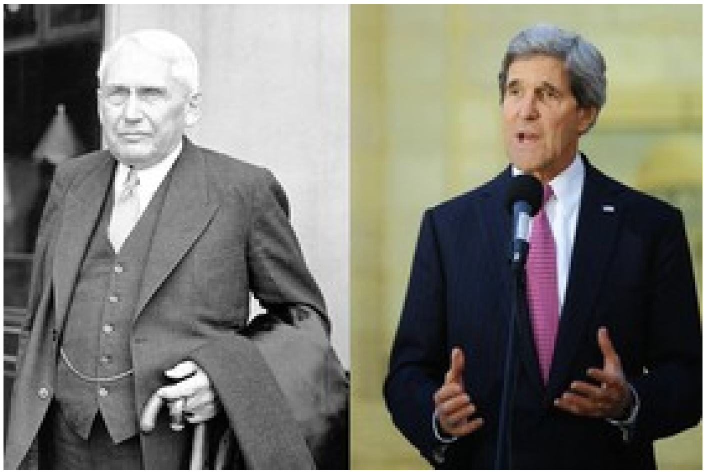
Mr. Kerry announced last week that he'd like to see Iran participate "from the sidelines" in the talks, scheduled to begin in Geneva later this month, to end the Syrian civil war. He's working overtime on a "framework" agreement for Israeli-Palestinian peace. And then there's the nuclear deal to finalize with Iran.

Geneva II, as the Syrian talks are known in diplospeak, is based on a June 2012 international communiqué calling on the Syrian government and the opposition to come together and form a "transitional" government. When the communiqué was issued, then-Secretary of State Hillary Clinton insisted that its terms barred Bashar Assad from remaining in power, while Sergei Lavrov, her Russian counterpart, insisted the contrary.

Otherwise, solid agreement.

Eighteen months, multiple chemical attacks, a spiraling regional crisis, tens of thousands dead and two million refugees later, we come to Geneva II.



Frank Kellogg outlawed war in 1928.
Kerry wants Mideast peace in 2014.

In theory, the meeting will bring together all the relevant parties to negotiate a political solution to the war. In reality, Assad is barrel-bombing civilians, the opposition is at war with itself, and the Syrian National Council, the main (and moderate) opposition group, has insisted that it will not take part in a sham process.

So what is Geneva II supposed to achieve? It won't end the war in Syria. Iran has already announced that Mr. Kerry's "from the sidelines" suggestion is incompatible with its sovereign dignity. If members of the Syrian opposition show up while others refuse, it will further fracture the side the U.S. is supposed to be on. If the U.S. agrees to give Iran a seat at the table (as Mr. Kerry will be tempted to do), the move will further strengthen Assad's hand.

Otherwise, the prospects are excellent.

The secretary of state has also been busy with Israeli-Palestinian peace. On Sunday, on his 10th peacemaking trip in a year, he spent hours discussing the subject with Saudi Arabia's 89-year-old King Abdullah, who offered his "enthusiastic support." When you've alienated the Saudis by capitulating on Iran and Syria, there's at least a logic in trying to appease them with a renewed push for Palestinian statehood.

But here too it's hard to avoid the unreality of Mr. Kerry's undertakings. The Palestinian Authority has had two masters since Hamas took control of Gaza in 2007. Who, then, speaks for the Palestinians? Mahmoud Abbas, 78, nominally the Palestinian president, no longer bothers with elections. There hasn't been a prime minister of Palestine since June. Israel demands that Palestinians recognize it as a Jewish state. Mr. Abbas explicitly rejects it as one. Mr. Kerry is also exploring the possibility of interim agreements. Chief Palestinian negotiator Saeb Erekat insisted on Saturday that "there's no place to talk about interim agreements."

And there was this: The Israeli cabinet was presented Sunday with a long report on Palestinian incitement since the resumption of peace negotiations. "Official Palestinian media outlets relay that Israel has no right to exist, and that the Jewish people have no claim to the Holy Land," reported the Israeli newspaper Haaretz. "In addition, other messages prevalent in Palestinian media include that Israel's disappearance is inevitable and expected to happen soon, as Jews are sub-human creatures that must be dealt with accordingly."

Otherwise, the karma is excellent.

And then there are the nuclear talks with Iran. In case you missed the fine print, the interim deal that supposedly brought Iran's enrichment to a halt has yet to be implemented. On Monday, Reuters reported that Iran expected to start honoring the deal by the end of the month. Maybe. From the beginning of the Iranian nuclear drama in 2002, Tehran's M.O. has been to stall for all the time it can get. Expect the six-month deadline that Mr. Kerry promised in November to drag into a year.

Meanwhile, the head of Iran's nuclear program recently said Iran had "two types of second-generation centrifuges," capable of enriching uranium at much faster rates, but that it is keeping them offline—for now. Think of them as Chekhov's gun.

Otherwise, the diplomacy is proceeding as planned.

For all this, Mr. Kerry could succeed in his efforts, just as Frank Kellogg did: When the diplomacy of great powers becomes unstuck from reality, sometimes it's easier for the smaller powers to go along with the fiction now and take advantage of the facts later. But the world won't live in illusions forever. Too bad the same probably can't be said for John Kerry.

American Interest

Yes, Academia, Winter Is Still Coming

by Walter Russell Mead

Megan McArdle has an excellent essay up at Bloomberg about the sorry state of the job market for PhDs that's very much worth your time. The crux of her argument:

The fundamental issue in the academic job market is not that administrators are cheap and greedy, or that adjuncts lack a union. It's that there are many more people who want to be research professors than there are jobs for them. And since all those people have invested the better part of a decade in earning their job qualifications, they will hang around on the edges of academia rather than trying to start over. Such a gigantic glut of labor is bound to push down wages and working conditions.

The business model for PhDs is functionally off. Graduate schools are minting far more PhDs than the market can absorb.

The problem as we see it is that the post-World War 2 university system was built on the assumption of an ever expanding population of students needing more and more higher ed. Therefore there was a need for each generation to produce more professors than the last. (This is not all that dissimilar, by the way, to the way many pension systems and social programs like Medicaid were built on the assumption that a bigger generation would roll around to pay the bills for the current enrollees.)

For a long time, each generation *did* need more than the last. More professors were needed for rising enrollments, so more grad schools were needed—which also raised the demand for professors, because more professors were needed to train new professors.

As McArdle notes, add to that the fact that a lot of people would like to be research professors: no boring students, job security, lots of conferences, prestige, research! (This is what the profession looks like to 22 year olds who have spent all their lives in school environments and have been trained to see professors as authority figures and mentors.) Sprinkle in student loan programs, the natural ambition of colleges to become universities and small universities to become big ones, and there are a lot of forces pushing academia to expand. The result is one of the more cruel and exploitative workplaces in the United States today. While the lot of day laborers and poultry plant employees is worse still, they at least haven't spent a decade of their lives preparing for jobs that they are then denied.

This system is now coming undone. There aren't many jobs for entry level doctoral grads, and even fewer for tenure track. Oversupply pushes wages down and keeps desperate hangers-on thronging around looking for adjunct positions. Older professors who were once obliged to retire at 65 now keep teaching. The result is a huge jobs crush.

To resolve the oversupply, we're going to have to close down many PhD-generating graduate programs and shrink most others. The result will be that demand for professors in the affected field will shrink even more. With fewer grad students to teach, most schools will not need the large tenured faculties they have today, and tenure positions will shrink more still. That in turn should lead to another round of grad school shrinking—even fewer openings as more universities cut department size to adjust to the shrinkage of grad school programs—until at some point the process reaches an equilibrium.

US schools could fight this process in several ways. They could continue to produce PhDs for export, so that foreign and US students educated in US grad programs can get tenure track jobs overseas. In some subjects, PhD programs can be overhauled to make the degree more attractive to employers: natural science and economics degrees, for example, could focus more on practicalities than on preparation for a life in the academy. The biggest opportunity could be the promotion of Master's degrees, either for avocational students (the retiree who now has the chance to read great books, or who was always curious about astronomy but never really had the time to follow up), or to provide additional education that really helps people get better jobs because they can do more complex things.

Smart schools are already thinking about these things and making preparations for change.

WSJ

Richard Vedder and Christopher Denhart: How the College Bubble Will Pop

In 1970, less than 1% of taxi drivers had college degrees. Four decades later, more than 15% do.

By Richard Vedder And Christopher Denhart

The American political class has long held that higher education is vital to individual and national success. The Obama administration has dubbed college "the ticket to the middle class," and political leaders from Education Secretary Arne Duncan to Federal Reserve Chairman Ben Bernanke have hailed higher education as the best way to improve economic opportunity. Parents and high-school guidance counselors tend to agree.

Yet despite such exhortations, total college enrollment has fallen by 1.5% since 2012. What's causing the decline? While changing demographics—specifically, a birth dearth in the mid-1990s—accounts for some of the shift, robust foreign enrollment offsets that lack. The answer is simple: The benefits of a degree are declining while costs rise.

A key measure of the benefits of a degree is the college graduate's earning potential—and on this score, their advantage over high-school graduates is deteriorating. Since 2006, the gap between what the median college graduate earned compared with the median high-school graduate has narrowed by $1,387 for men over 25 working full time, a 5% fall. Women in the same category have fared worse, losing 7% of their income advantage ($1,496).

A college degree's declining value is even more pronounced for younger Americans. According to data collected by the College Board, for those in the 25-34 age range the differential between college graduate and high school graduate earnings fell 11% for men, to $18,303 from $20,623. The decline for women was an extraordinary 19.7%, to $14,868 from $18,525.

Meanwhile, the cost of college has increased 16.5% in 2012 dollars since 2006, according to the Bureau of Labor Statistics' higher education tuition-fee index. Aggressive tuition discounting from universities has mitigated the hike, but not enough to offset the clear inflation-adjusted increase. Even worse, the lousy economy has caused household income levels to fall, limiting a family's ability to finance a degree.

This phenomenon leads to underemployment. A study I conducted with my colleague Jonathan Robe, the 2013 Center for College Affordability and Productivity report, found explosive growth in the number of college graduates taking relatively unskilled jobs. We now have more college graduates working in retail than soldiers in the U.S. Army, and more janitors with bachelor's degrees than chemists. In 1970, less than 1% of taxi drivers had college degrees. Four decades later, more than 15% do.

This is only partly the result of the Great Recession and botched public policies that have failed to produce employment growth. It's also the result of an academic arms race in which universities have spent exorbitant sums on luxury dormitories, climbing walls, athletic subsidies and bureaucratic bloat. More significantly, it's the result of sending more high-school graduates to college than professional fields can accommodate.

In 1970, when 11% of adult Americans had bachelor's degrees or more, degree holders were viewed as the nation's best and brightest. Today, with over 30% with degrees, a significant portion of college graduates are similar to the average American—not demonstrably smarter or more disciplined. Declining academic standards and grade inflation add to employers' perceptions that college degrees say little about job readiness.

There are exceptions. Applications to top universities are booming, as employers recognize these graduates will become our society's future innovators and leaders. The earnings differential between bachelor's and master's degree holders has grown in recent years, as those holding graduate degrees are perceived to be sharper and more responsible.

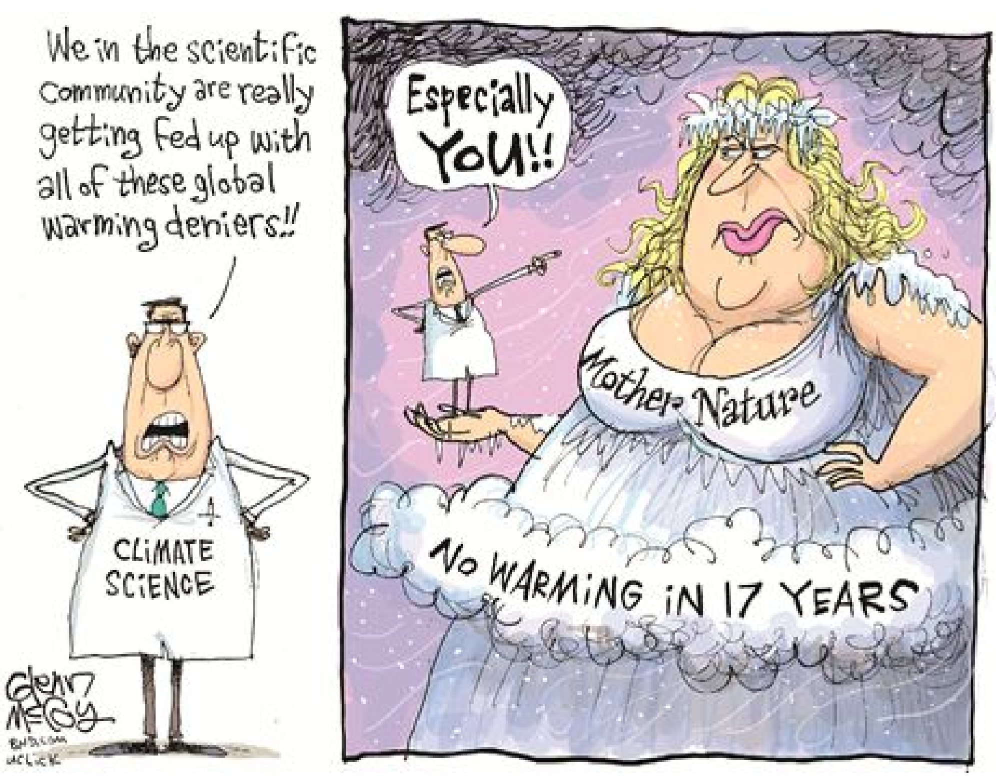
But unless colleges plan to offer master's degrees in janitorial studies, they will have to change. They currently have little incentive to do so, as they are often strangled by tenure rules, spoiled by subsides from government and rich alumni, and more interested in trivial things—second-rate research by third-rate scholars; ball-throwing contests—than imparting knowledge. Yet dire financial straits from falling demand for their product will force two types of changes within the next five years.

First, colleges will have to constrain costs. Traditional residential college education will not die because the collegiate years are fun and offer an easy transition from adolescence to adulthood. But institutions must take a haircut. Excessive spending on administrative staffs, professorial tenure, and other expensive accouterments must be put on the chopping block.

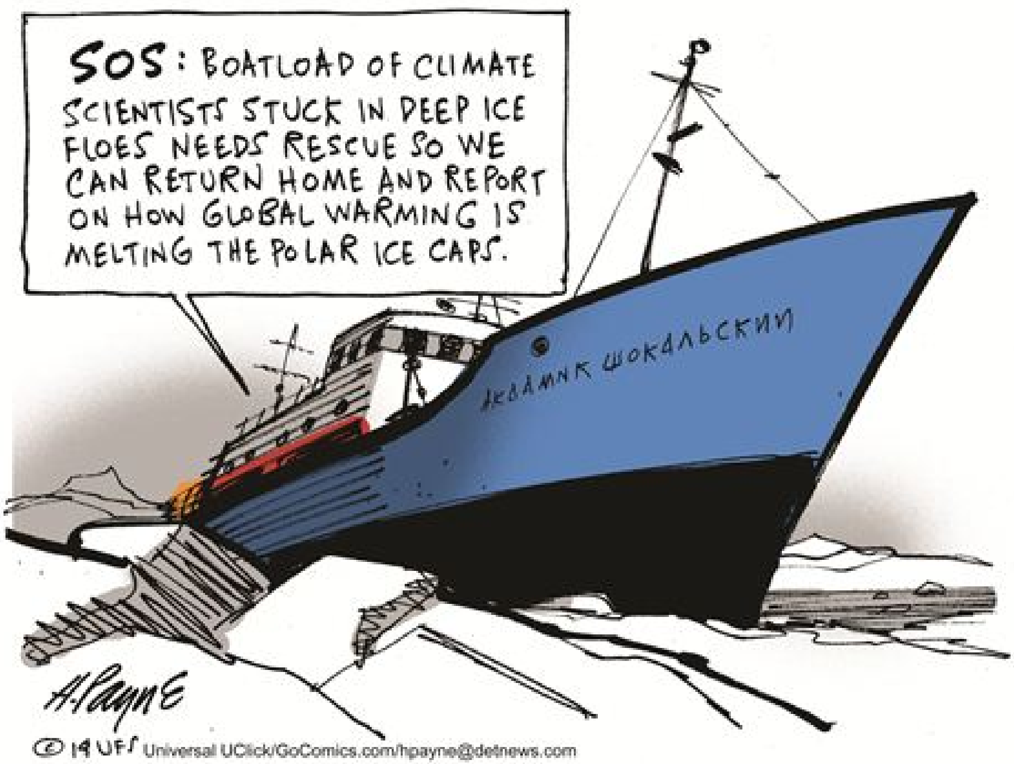
Second, colleges must bow to new benchmarks assessing their worth. With the advent of electronic learning—including low-cost computer courses and online courses that can reach thousands of students around the world—there is more market competition than ever. New tests are being devised to assure employers that individual students are vocationally prepared, helping recruiters discern which institutions deliver superior academic training. Purdue University, for example, has joined with the Gallup Organization to create an index to survey alumni, providing universities and employers with detailed information, including earnings data.

This educational entrepreneurship offers hope that creative destruction is coming to higher education. Many poorly endowed and undistinguished schools may bite the dust, but America flourished when buggy manufacturers went bankrupt thanks to the automobile. The cleansing would be good for a higher education system still tied to its medieval origins—and for the students it's robbing.

Mr. Vedder, an adjunct scholar at the American Enterprise Institute, is the director of Center for College Affordability and Productivity and a teacher at Ohio University, where Mr. Denhart is a student.




WHY DIDN'T THEY MENTION THAT IT WAS ON A GLOBAL WARMING MISSION?
SAME REASON THEY DIDN'T PUBLISH THOSE MUHAMMAD CARTOONS.
GLOBAL WARMING
ABSOLUTE TRUTH THAT CAN NOT BE QUESTIONED
NEWS
PASSENGERS RESCUED FROM SHIP TRAPPED IN ICE
DEATH TO INFIDELS
ERIC ALLIE


SOS: BOATLOAD OF CLIMATE SCIENTISTS STUCK IN DEEP ICE FLOES NEEDS RESCUE SO WE CAN RETURN HOME AND REPORT ON HOW GLOBAL WARMING IS MELTING THE POLAR ICE CAPS.
H.PaynE
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THEY PROBABLY FORGOT TO FACTOR THAT IN.
GLOBAL WARMING THEORY
REALITY


UPDATE ON THAT RESEARCH SHIP, FROZEN IN ANTARTIC ICE
GLOBAL WARMING SCIENCE
YOU MIGHT WANT TO RECHECK YOUR MATH.

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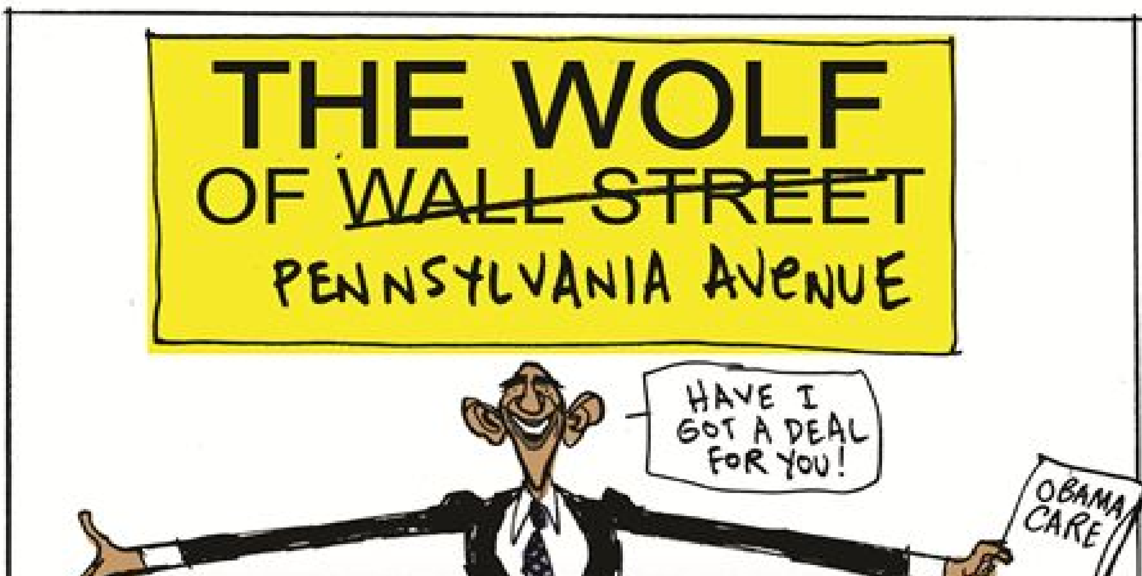
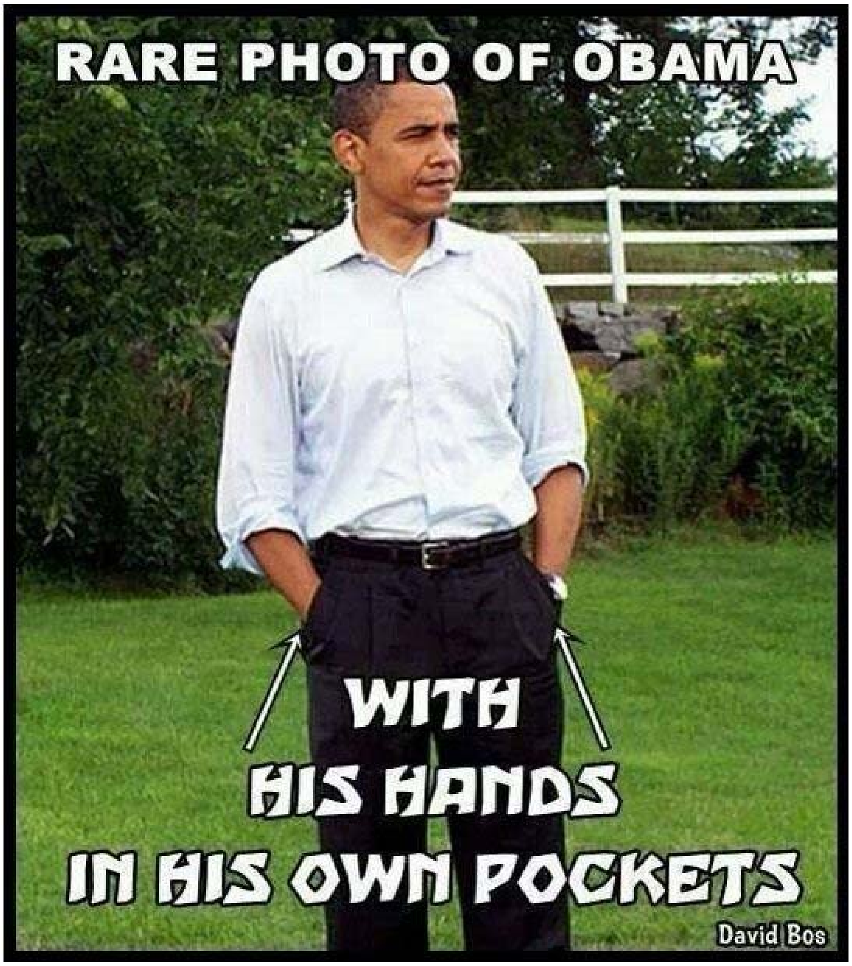
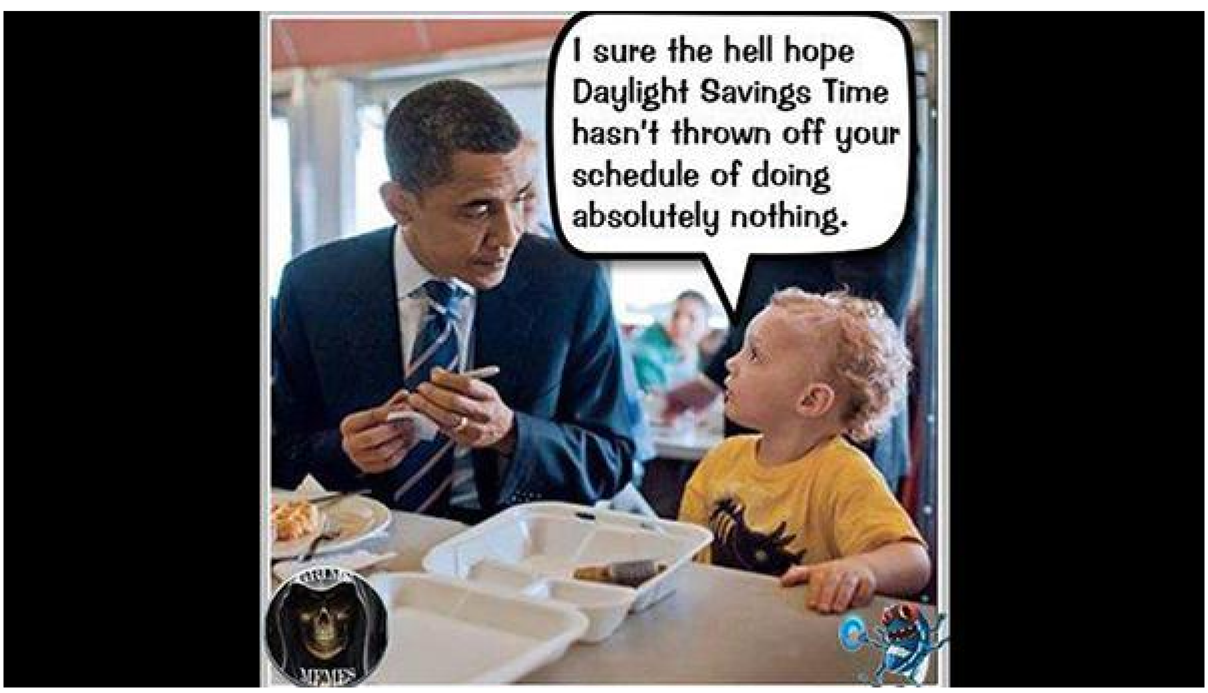
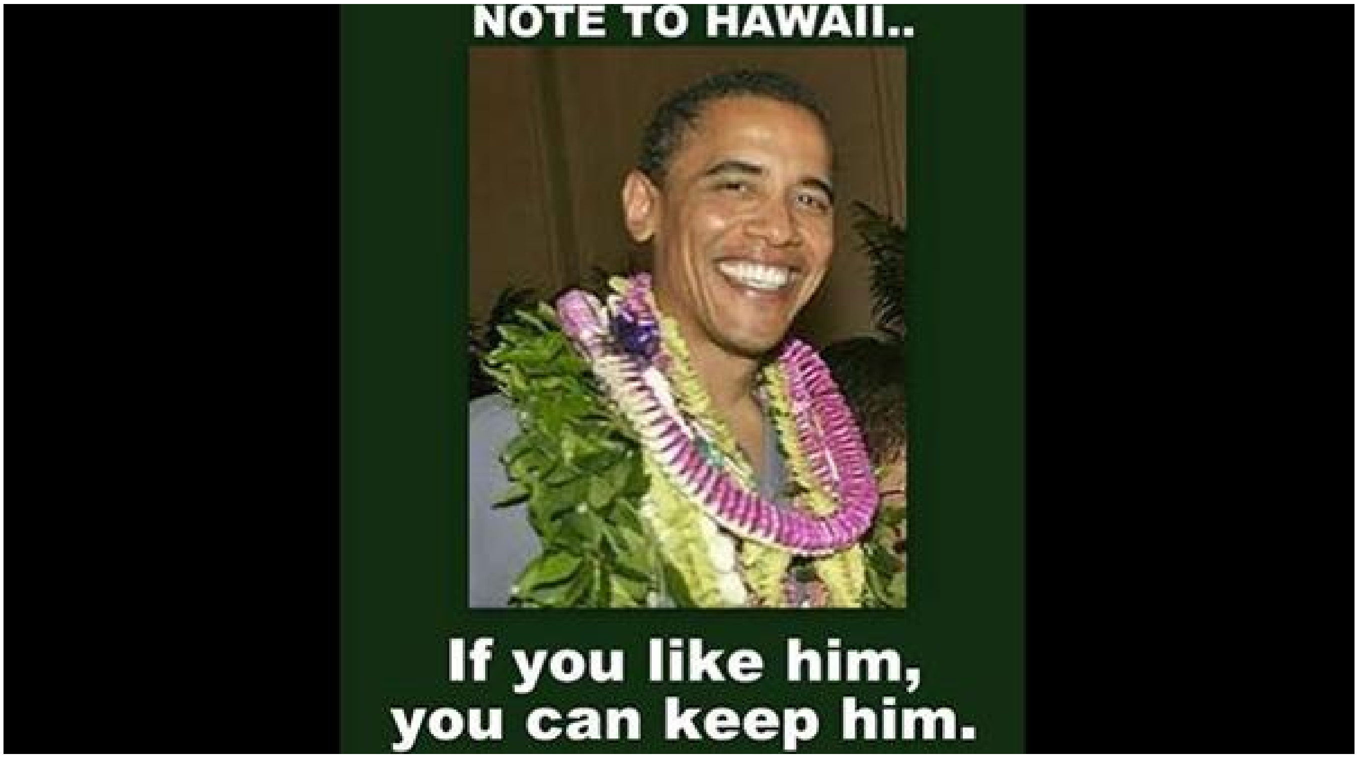
THE SCIENCE IS SETTLED IN.
ANTARCTIC GLOBAL WARMING EXPEDITION



THE WOLF
OF ~~WALL STREET~~
PENNSYLVANIA AVENUE
HAVE I GOT A DEAL FOR YOU!
OBAMA CARE


RARE PHOTO OF OBAMA
WITH
HIS HANDS
IN HIS OWN POCKETS
David Bos


I sure the hell hope Daylight Savings Time hasn't thrown off your schedule of doing absolutely nothing.


NOTE TO HAWAII..
If you like him,
you can keep him.


"Negotiating with Obama is like playing chess with a pigeon.
The pigeon knocks over all the pieces, s s on the board and then struts around like it won the game." ~Putin