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THE DIMINISHING RETURNS OF A COLLEGE DEGREE

In the mid-1970s, far less than 1 percent of taxi drivers were graduates. By 2010 more than 15 percent were

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In the 375 years between 1636, when Harvard College was founded, and 2011, college enrollments in the United States rose almost continuously, rarely undergoing even a temporary decline. When the American Revolution began in 1775, only 721 students attended the nine colonial colleges. By 2010 [enrollments had surpassed](#) 20 million.

Yet from 2011 to 2016, the National Student Clearinghouse [reports](#), total higher education enrollments declined every fall, falling to 19 million from 20.6 million. Although the declines were concentrated in community colleges and for-profit institutions, even many traditional four-year schools saw previously steady enrollment growth come to an end. Many smaller schools have even missed their annual enrollment goals.

Why is this happening? Some point to demographic influences, such as a drop in birth rates during the 1990s. Others cite increases in job opportunities, which lured college-age Americans away from the academy in the aftermath of the Great Recession. But two longer-term trends are at work: The cost of college attendance is rising while the financial benefits of a degree are falling.

The evidence on rising costs is well established: From 2000 to 2016, the tuition-and-fees component of the Consumer Price Index [rose](#) 3.54 percent annually (74.5 percent over the entire period), adjusting for overall inflation. With sluggish business investment, a slowdown in income growth has aggravated the rising burden of paying for higher education. American families have taken on more than \$1.3 trillion in [student-loan debt](#) – more than what they borrow with credit cards or to buy cars.

Less well known is that the earnings advantage associated with a bachelor's degree compared with a high school diploma is no longer growing like it once did. Census data show that the [average annual earnings differential](#) between high school and four-year college graduates rose sharply, to \$32,900 in 2000 (expressed in 2015 dollars) from \$19,776 in 1975 – only to fall to \$29,867 by 2015. In the late 20th century rising higher-education costs were offset by the increasing financial benefits associated with a bachelor's degree. Since 2000 those benefits have declined, while costs have continued to rise.

Rising costs and declining benefits mean the rate of return on a college investment is starting to fall for many Americans. Some observers have begun asking whether it might not be better for more students to forgo college in favor of less expensive postsecondary training in vocations like welding and plumbing. The New York Federal Reserve Bank [says](#) about 40 percent of recent college graduates are “underemployed,” often for a long time. They sometimes resort to taking jobs as Uber drivers or baristas. With some inexpensive vocational training, they could easily get jobs that pay much better.

To be sure, the payoff from a college education varies sharply depending on school and major. U.S. Department of Education data suggests recent attendees of Stanford University earn on average far more than twice as much as those attending Northern Kentucky University (\$86,000 vs. \$36,000). Electrical engineers typically earn twice as much as psychology majors. No wonder elite students flock to schools like Stanford and demand for graduates with engineering degrees remains robust, while many state universities, community colleges and smaller liberal-arts schools struggle to attract students.

The size of the college-earnings advantage also varies with race and gender. In recent years, male college graduates' earning power has decreased significantly, as it has for whites and Asians. Not so for women, Hispanics and blacks, for whom the financial payoff to a college education has continued to rise. College graduates traditionally earn more than high school graduates in part because their degrees act as signaling devices in the job market. To employers, a candidate with a bachelor's degree has always seemed brighter and more disciplined, ambitious and reliable than someone with only a high school diploma. But how does knowing a lot about, say, anthropology, make one a more productive worker?

As the proportion of adult Americans with college degrees grows beyond one-third, being a college graduate no longer necessarily denotes exceptional vocational promise. The bachelor's degree is not the reliable signaling device it once was.

Nowadays, because of underemployment among college graduates, restaurant owners can hire bartenders who have college degrees. Credential inflation is at work. In the mid-1970s, far less than 1 percent of taxi drivers were college graduates; by 2010 more than 15 percent were. Is it possible that by 2030 a master's degree in janitorial science could be a prerequisite for a job sweeping floors?