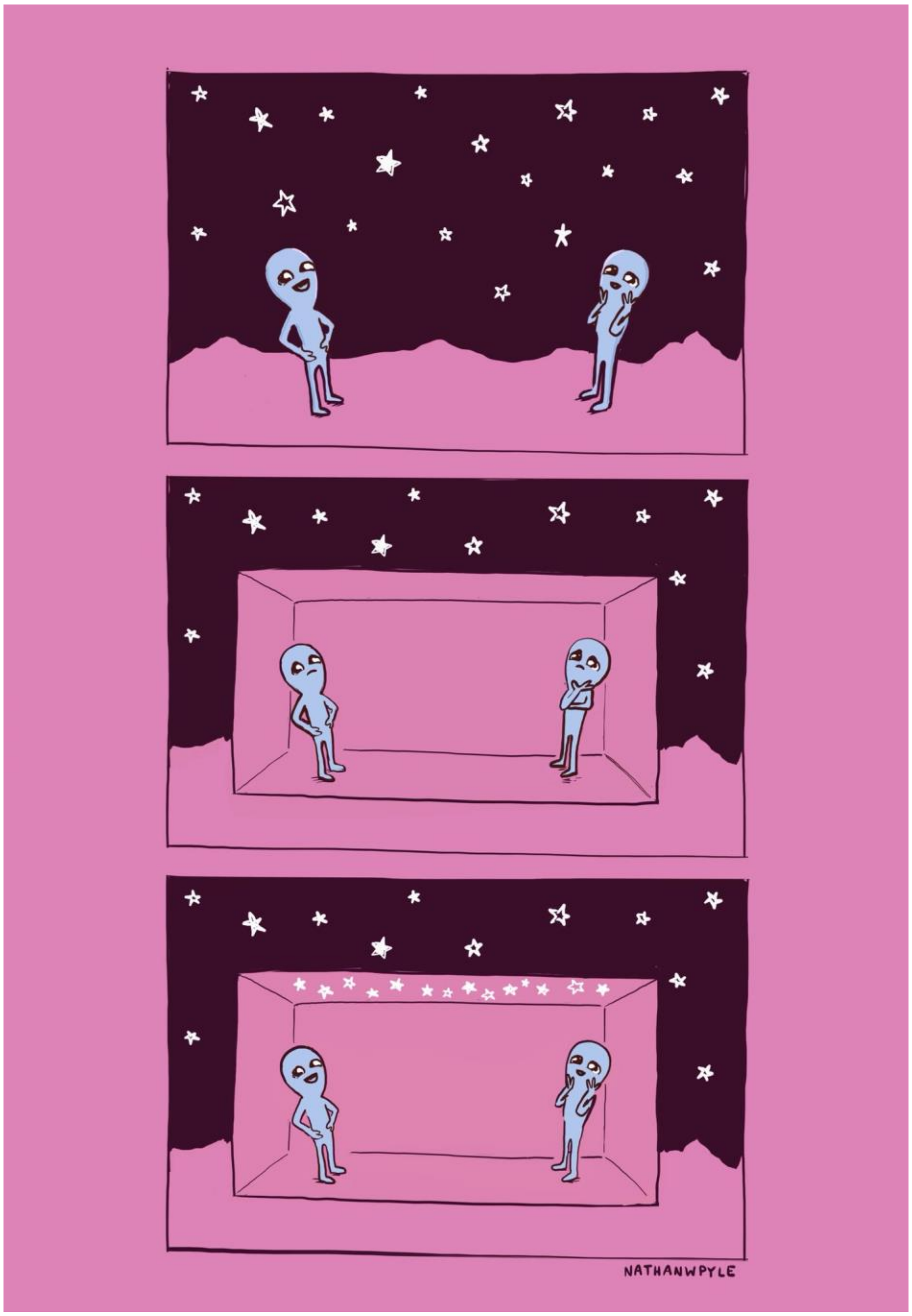
Epsilon Theory

Starry Eyes and Starry Skies

April 30, 2019



From Strange Planet by Nathan W. Pyle

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I remember when I first knew where I wanted to go to college.

I also remember the look on my dad's face, sitting in the Holiday Inn in Cherry Hill, New Jersey. I could tell he was struggling with whether we could manage it. It would mean taking out about $25,000 in federal loans in my name. About $60,000 in his. We had never even *considered* taking out loans for me to go to college before. This was more debt than the mortgage my family had taken out on our house. A campus visit and a childhood spent building up credibility as a sober-minded, serious kid later, and we would be in for 85 grand. If I could get in, I knew, I had to do it. I had earned it, you see.

No, I *deserved* it.

So did 45 million other starry-eyed young Americans. At the (often literal) push of a button, we created debt now amounting to more than $1.6 trillion out of the ether to give each of us what we **declared** we deserved: Validation. Credibility. Credentials. All we had to do was reach out and take it. All we had to do was believe the myth.

And yes, Virginia, the importance of post-secondary education in America IS a myth - one of our most powerful.

No, that doesn't mean that college and its attendant experience don't hold intrinsic value. It also doesn't mean that the credential offered by these institutions isn't a real currency. It means that the Common Knowledge underlying that currency is far more powerful than whatever the *truth* about college is. It means that the stories we tell about college are more important in almost every way than the facts. It means that whenever we talk about college in America, we are nearly always talking about the meme of *college!*

College! is a meme of equality, something we raise our hands for because we believe in the importance of socioeconomic mobility, the American Dream.

College! is a meme of human progress, something we raise our hands for because we believe that expanding education, research and knowledge will power ingenuity, innovation and prosperity.

College! is a meme of meritocracy, something we raise our hands for because we believe that talent and hard work cross all biological, social, racial and gender boundaries, and that systems which reward merit permit the destruction of those artificial constraints.

The Myth of College is an idea which permits us to **declare** it to be synonymous with these principles. The consequence of this declaration is that we may also **declare** that any opposing idea opposes those principles. You don't hate equality, innovation and merit…do you?

We hold up our 'Yay, College' signs in the same way as we do **'Yay, Military', 'Yay, Capitalism' and 'Yay, Equality'** signs, because not doing so is to say that we oppose the right-sounding principles that form the basis of the myth. And just like 'Yay, Capitalism', well…capitalizes on our desire to signal our deeply held belief in the power of rewarding economic risk-taking to convince us to permit *distortions* in economic risk-taking, 'Yay, College' exploits our belief in equality, innovation, merit and education to convince us to permit *distortions* in the capacity of our university and degree system to deliver ANY of those things.

The myth has also driven us to create a system of laws and policy that have, in turn, produced a very real student loan crisis. As a political issue, this is far more powerful and far more connected to the political zeitgeist of 2019 than most people want to believe. It is a case for **Clear Eyes and Full Hearts**.

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THE VALUE OF COLLEGE

Neither particularly clear eyes nor an especially full heart are needed to recognize that educational attainment has been on a steady, long-term rise in the United States for more than half a century. This is a good thing. In 1950, only 34% of American adults had finished high school. Today, that's about how many have completed at least a bachelor's degree program. There are all sorts of studies documenting other positive developments in educational attainment, too, not least the convergence of opportunities across gender and, to a lesser extent, across racial and socioeconomic boundaries.

But what is the *right* level? Leaving aside the Myth of College for a moment, do somewhere between a third and a half of jobs in the United States require what an undergraduate program teaches? I don't know. Sorry. It's not an objectively answerable question, and the responsiveness in what those programs teach to what is perceived as being needed complicates the question further.

I am happy, however, to give you my opinion. I think the number of people who need to attend college from a knowledge and skills perspective is far, far less than one-third of adults. Yes, engineering professions and those in biomedical and applied sciences require a base of knowledge that takes time to accumulate. Same for those preparing for post-graduate research and teaching roles across subjects. I think that you can make an argument for elementary and secondary education on the basis of the breadth of subject knowledge that is (theoretically) required, too. Based on 2016 data, those subjects account for about 22% of undergraduate degrees granted, plus however many you want to count as being necessary to refill post-graduate teaching posts – a vanishingly small figure.

In all, I am confident there is a *vocational* need for four-year college for no more than 10-15% of adults. Am I saying that the tens of millions of programmers, financial analysts, writers, designers, bankers, managers, accountants, product marketers and sales personnel out there could function at equivalent or higher levels with less than a year of focused vocational training, if such a thing existed? Yeah, that's *exactly* what I'm saying. Am I saying that only 10-15% of adults *should* go to 4-year universities? No!

Look, preparing for a career isn't the only reason you might think about spending four years at a university. But most of the reasons we provide are also conflations of the type that are so common when we deal with other abstractions, myths and memes. In other words, because these ideas have become *attached* to the Myth of College, it takes little more than a rhetorical flourish to shut down criticism of the value of post-secondary education. Simply assert that someone who is skeptical of our approach to post-secondary education opposes these ideas!

What are these 'conflations' and ideas? How about 'it's about discovering yourself', as if one couldn't achieve that by traveling the world? I am sure you've heard 'it's about learning how to think critically' or 'learning how to problem solve in a group setting' or 'developing confidence and communication skills', too, as if college is somehow better equipped than other settings to deliver these lessons. We are also fans of 'it is an important opportunity to network' or 'to build lifelong friendships', which are great, but also tautological rather than fundamental (i.e. college is important because others consider it important).

There is one reason – and in my opinion, one reason only – to attend college that does not relate to vocation, preparation for a life of research or teaching, or the fact that a critical mass of one's age cohort is already there:

Because college permits us to be wrong, offensive and awkward in exploration of new and uncomfortable ideas and knowledge in a setting with low consequences.

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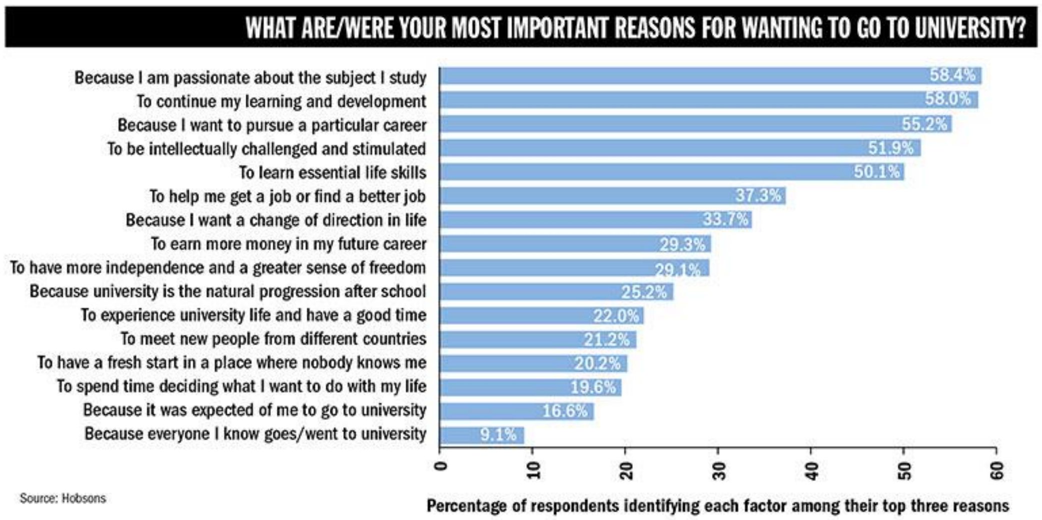
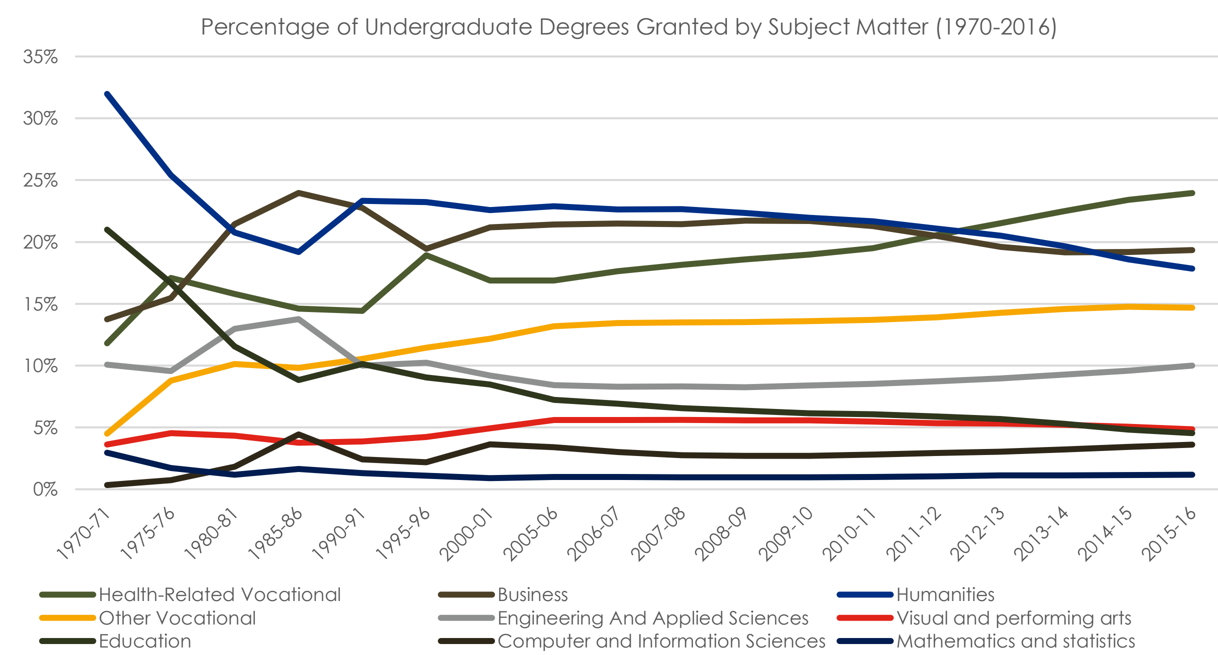
Now, you would be forgiven for wondering whether **universities are committed to this one critical, indispensable function**. I think most still are. This function alone, for many – for me - would justify the investment of 5% of life and 10% of lifetime earnings. It is huge. Truly. It also has almost *nothing* to do with why most people choose college. Even if we grant credit for 'to be intellectually challenged and stimulated' below, most of the reasons people go to college are either things 4-year college isn't unusually well-suited to deliver, or else vocational in nature.



Source: Hobson's International Student Survey, 2017

If that's the deductive part of the story, the inductive argument lies in chosen degrees. In the 19th Century, American universities *were* institutions that turned liberally educated student-philosophers into lawyers and clergy. In the early-to-mid 20th Century, American universities swapped out clergy for businessmen, and started teaching women to be teachers, but otherwise were much the same. Today? American universities are officially in the business of vocational training for white-collar professions.



Source: National Center for Education Statistics (categories by Epsilon Theory)

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THE CO-OPTION OF CREDENTIAL

Except *even that* isn't exactly true.

The Myth of College is that it grants invaluable life experience, broadened horizons and deeper skills that no other 4-year experience for a young adult could match.

The Zeitgeist of College is the grudging admission that it is now really about preparing workers for long and successful careers.

The Reality of College is that it sells a license to use a credential.

What do I mean by a credential? I mean the portfolio of Useful Signals that are sent by the achievement of a university degree. Beyond the attachment to the ideals of the Myth of College, much of that signal, I think, exists in our Common Knowledge about what traits a student needs to be admitted to that particular degree-granting institution. You know, intelligence, creativity, breadth of talents, work ethic, having the correct parents and grandparents, things like that. Much of whatever is left exists in the signal from completing the degree. Can you follow instructions? Are you comfortable pulling all-nighters? How do you feel about sitting at a desk for 60 hours a week?

And no, like the related question of what share of jobs truly requires the skills gained in four-year college, the question of the share of the *observable value* of a college degree we can attribute to skill gain vs. credential is neither provable nor falsifiable. So, doubt it and tout the anecdotally valuable lessons of a college education all you want.

But if you *do* doubt it, you'll have to explain why all the private equity partners, lawyers, former actors and celebrities caught up in the admissions scandal paid that kind of money to get their kids admitted. Would you have us believe it's because they *really wanted little Jimmy to discover who he was?* You'll have to explain, as Bryan Caplan suggests in **The Case against Education**, why, if the value of college is really in the knowledge and experience, more locals don't just audit lectures to reap all the benefits. You won't get caught. I promise. You'll have to explain the sheepskin effect, why college graduates out-earn high school grads as janitors and bartenders, and all sorts of other things.

Regardless of whether you think a degree is valuable because of some intrinsic skill and knowledge gain, or because of the credential it offers, the degree itself IS unquestionably valuable. It is socially, economically and politically valuable. And despite all the growth in degrees granted by US universities, the income premium those degrees offer has been stable. College grads earn about 75-80% more than their high school graduate peers.

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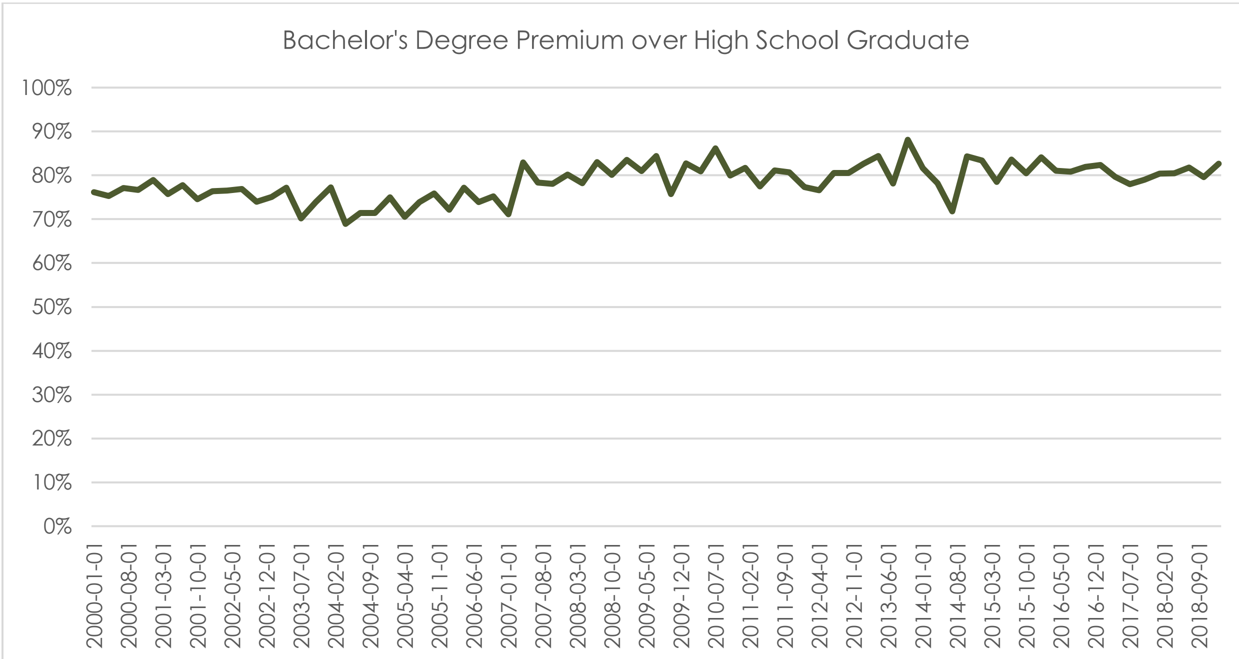
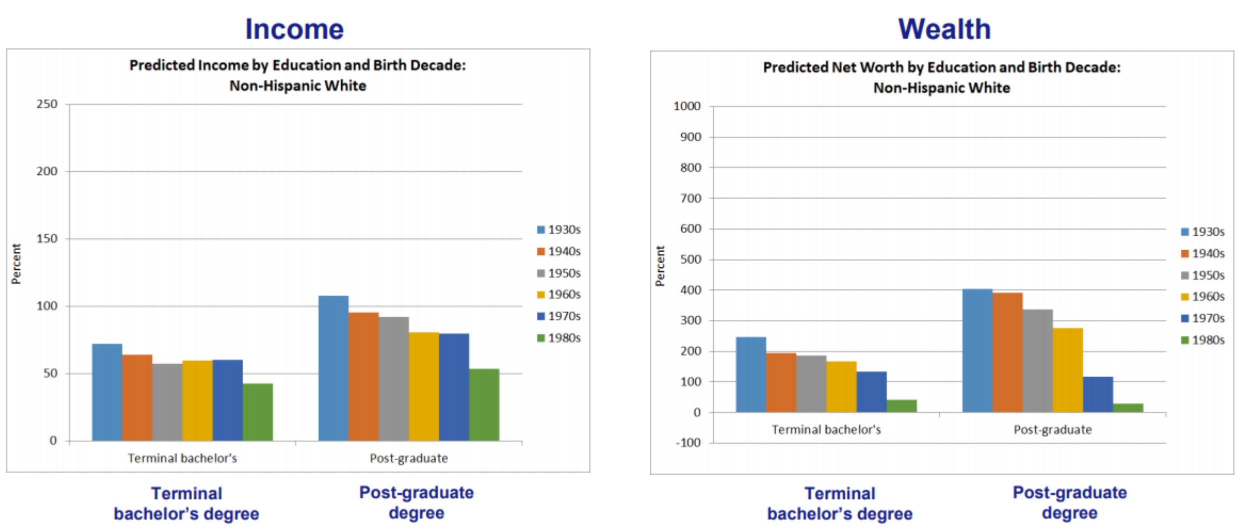


Except there's a problem with this, too.

There is an **income** premium from university degrees, but also emerging evidence of an evaporating **wealth** premium after we have adjusted for family size and life cycle. The below exhibit comes from research conducted by the St. Louis Fed's Center for Household Financial Stability. White college graduates born in the 1980s and afterward **do** make more money than their high school-only peers, but it isn't translating into net worth.



Things are even worse for college-educated black Americans. On the basis calculated by the St. Louis Fed, cohorts beginning as early as the *1960s* have produced almost no net worth advantage against their high school-educated peers.

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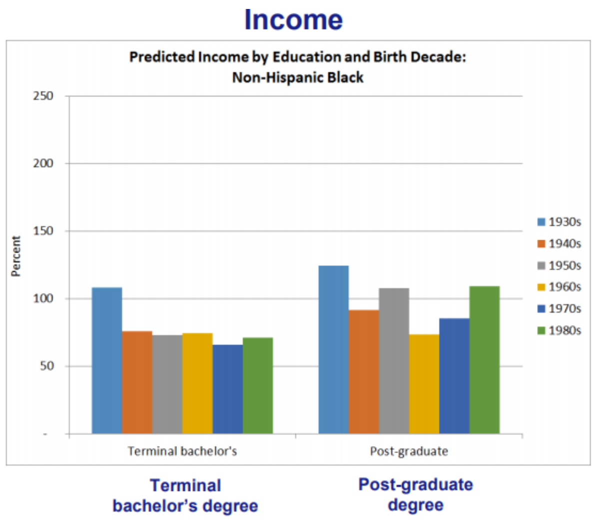
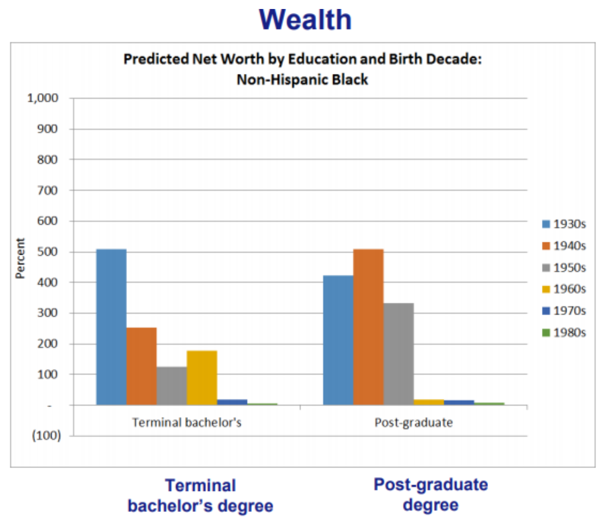
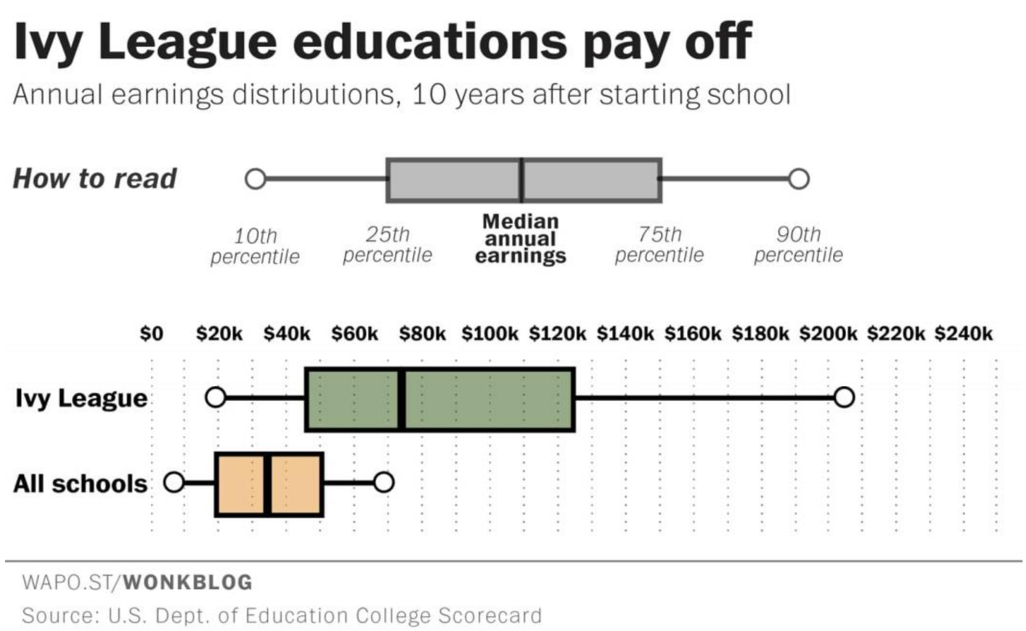




Why did the erosion in college's net worth premium begin earlier for minorities? There are probably a lot of reasons, ranging from fewer investment services offered to underbanked black communities for much of this period, to predatory lending practices that have routinely sucked wealth out of those communities on a disproportionate basis. What most whites consider standard financial services products have simply not been available on the same basis to blacks and Hispanics.

But I think there's more to the story – and this IS a story I'm telling you, not a fact. I think that the growth in credentialism has also created an arms race among institutions and a greater separation of the credential value of so-called elite institutions from the rest. I think that legacy policies and other admissions structures have effectively shut many minorities out of capturing this premium. And there IS a premium to getting Team Elite stamped on your passport.



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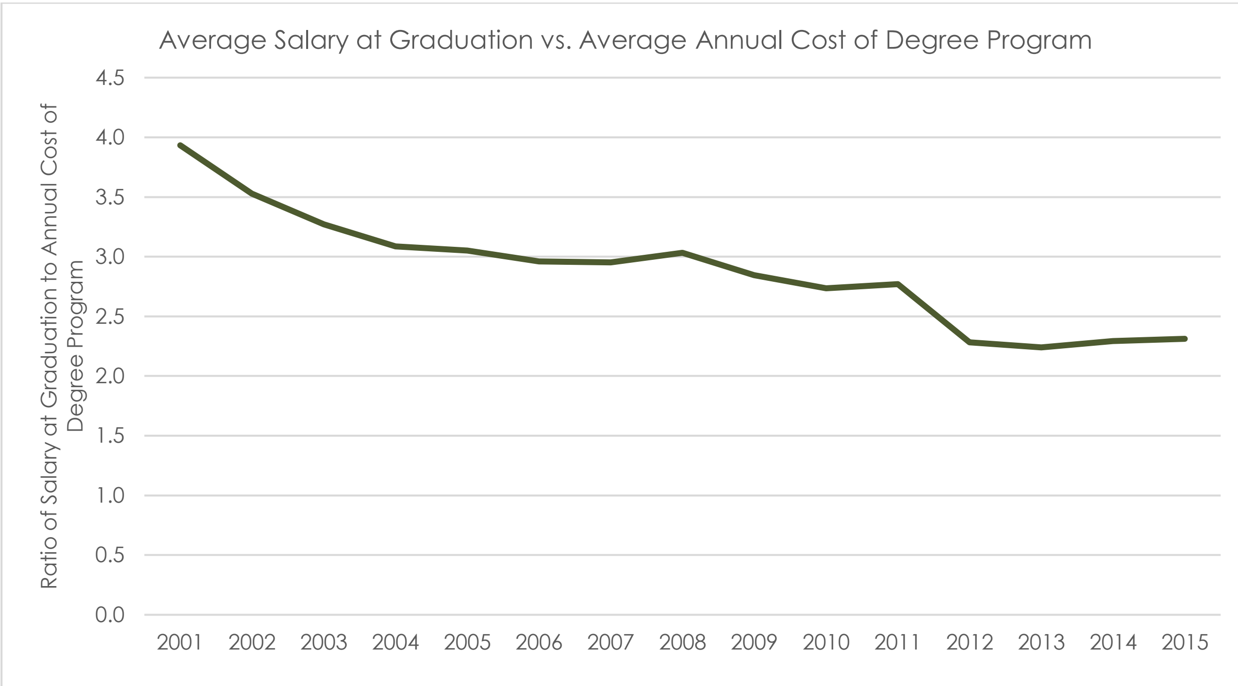
But leave net worth differences between demographic groups in each age cohort aside. Are the post-1980 cohorts intrinsically lazy, irresponsible and unwilling stewards of assets? Or is there, perhaps, a less stupid (if still only partial) explanation for the slow disintegration of the college degree net worth premium?



Source: Epsilon Theory, NACE/CRB, National Center for Education Statistics

WHAT HAPPENED TO COLLEGE?

So how and why did the college credential rapidly grow, then lose its power to drive differences in wealth, all while keeping all the attendant mythology intact?

The credential value of the university degree became Common Knowledge at the same time that the economic means to significantly expand secondary and post-secondary education in the US became a reality, and at the same time that agricultural and manual labor went into secular decline.

Good-intentioned Americans who wanted their children (parents) or their charges (educators) to experience better, more prosperous lives rightfully and justifiably celebrated college specifically - and education more broadly - as the engines which produced social mobility, wealth, career prospects and lifestyles that were better than those experienced by each generation's parents.

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Similarly good-intentioned Americans went into public office with visions of expanding this dream to include more and more people for whom these early efforts were insufficient. We created lending programs, guarantees and a system of laws to permit the extension of almost limitless credit to aspiring students and their families – and to make much of that debt nearly impossible to discharge. Because *everyone deserves* to go to college.

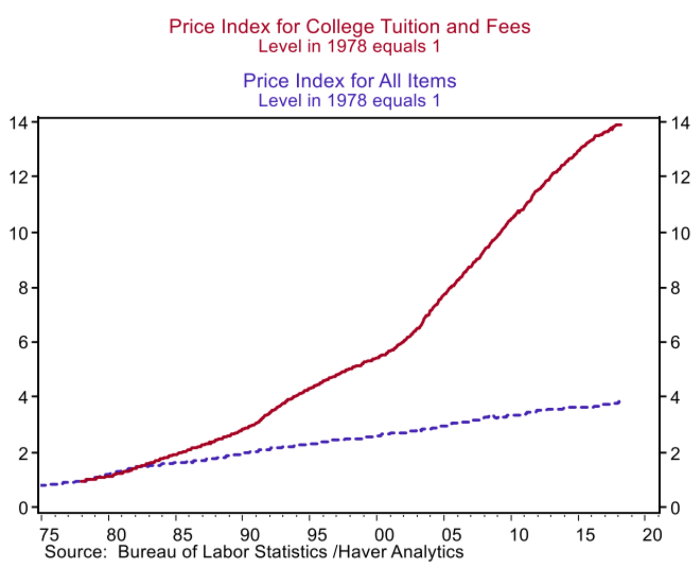
In doing all of this, the values we ascribed to 'college' became narrative. That narrative became the Zeitgeist. That Zeitgeist became the Myth of College. And in our obsessive celebration of the Myth of College instead of the direct celebration of its wondrous underlying traits, we unwittingly granted our university system unabridged letters patent to oversee the right of Americans to earn a good living.

In short, we created a guild. You know, what the Romans called 'collegia.'

Like guilds, our universities set the terms of trade in their credentials. They decided who could participate and who could not. They accumulated power and prestige through levies assessed on any who wished to practice a trade for which they held the patent. No, our modern guilds couldn't keep us from *learning* what they knew – give me three weeks, kids, and I'll teach you what you need to know to be a banking analyst - but they could absolutely withhold their credential, the thing which allowed those trades to be practiced.

What did they do with this power, you ask?

They did this. They extracted every ounce of the credential premium for themselves as a license fee.



Don't blame the parents, guidance counselors and high school principals who genuinely wanted their kids to have better lives than they did (even if some of their other behaviors belie that sentiment). Don't blame the good-intentioned politicians who saw expanding this dream as good public policy. Don't even blame the universities for simply following the opportunity the market provided. Okay, blame them a little bit. But truly, blame all of us. Because it *really took* all of us to create the Common Knowledge which imbues

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our most prized traits in a single social institution. **With it, we sold a generation of starry eye students a ceiling on their potential and called it a starry sky**.

And no, college debt isn't the sole cause of whatever is (not) happening to the net worth of college graduates. Timing of favorable investment environments, the inability of these generations to acquire real estate assets, and the concentration of jobs with these remarkable income differentials in cities with extreme rent costs all play a role, too. Obviously. Still, feel free to take "We didn't JUST create a system to extract wealth premium from college students through debt-fueled brutal college cost inflation, we ALSO pulled forward financial asset returns to benefit existing asset owners through the use of extreme monetary policy and extracted a portion of that wealth premium through NIMBY housing policies in every major US city outside of Texas" for a test spin and see how it feels.

WHAT HAPPENS NOW?

Now we've got to figure out what to do about the hell we created on the paving stones of good intentions.

What are those problems?

1. **Unnecessary Productivity Loss**: We lose an average of 2-3 years of productive, asset-building, creatively valuable years of happiness and freedom across each generation of Americans by effectively forcing millions of Americans to pay a toll to post-secondary educational institutions that they neither need nor wish to pay.

2. **Constraining Paths to Prosperity:** Through hundreds of billions in non-dischargeable debt, we are stifling the traditional paths to prosperity for just about anyone who won't inherit money from their parents, or who doesn't strike it rich in an entrepreneurial venture.

3. **Distortions Relating to a Generational Wealth Gap:** We are creating a generational wealth gap that presents meaningful risks to various capital and non-financial asset markets, and most importantly, entrepreneurial risk-taking.

4. **Hampering Household Formation:** We are piling on top of already challenged demographic trends with an additional bias toward later and less frequent household formation, which has both social and economic implications.

Some people of a similar political persuasion to me would say the right answer is to do nothing. It's sad, sure, but all those people signed on the dotted line. The market says this is what a degree is worth, and so families can choose to pay it or not. Either way, they live with the consequences. I hear you. I paid my college loans and feel the temptation to go full geroff-my-lawn about those grousing today. **Except there is nothing natural about this market.** The price students paid / are paying for these credentials is a reflection of decades of public policy permitting and encouraging the extension of credit for college to anyone and everyone who requests it. The demand side of the market has been aided by the artificial impact of twelve years of publicly funded curricula, messaging and 'education' designed explicitly to feed as many students as possible to the guilds of post-secondary education. It is a distorted market.

Others, like Senator Warren, have said that the solution is 'jubilee', to make college free (or much cheaper) and to permit the discharge of significant quantities of debt. There are shades of MMT here, and you will hear some make the very stupid argument that the important thing is that the proposal isn't really an outlay but rather the elimination of a non-cash government asset. Oof. Look, this is a good-intentioned policy that

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sees the plight of tens of millions of Americans and searches for a direct solution. I'm empathetic. Proposals like Warren's *would* begin to address some of the structural problems created by historical government interference in the market for education noted above. We can't pretend the money comes from nowhere – no matter how you look at it, it would be a tax on asset owners. It's a tough thing for me to get me to believe that layering on more public policy will ever fix the distortions caused by public policy, but maybe it's time for an intergenerational compact - a Boomer-Millennial summit of sorts to figure out how we share responsibility and commitment here.

Alas, it's moot, anyway. The Jubilee proposals don't just fail to get to the root of the problem - they exacerbate it. The biggest underlying social problems above are (1) that we are railroading entirely too many students into college programs whose skill gains could be provided much more efficiently in alternative, less time-consuming and less expensive ways than four years at Whatever Private College, and that (2) a combination of public policy and our collective cultivation of the Myth of College have permitted guild-like universities to raise tuition to demand a kingly share of any wealth premium offered by the credentials they confer. The debt problem is a problem in-itself, but it is also a subsidiary problem *caused* by these two problems. Guess how much the like of Bucknell, Tufts and SMU will adjust their planned annual tuition hikes over time in response to a policy providing $50,000 in debt jubilee or college cost reductions? If you answered $50,000 (or more), you win a **free subscription to Epsilon Theory**. Congrats.

I don't have a full answer, because I *can't* have a full answer. The student loan crisis is the kind of Big Deal that requires us to come together to decide what our compact with one another is going to be, if it's possible for us to do that kind of thing any more. I will tell you that I think any real answer that isn't just good-sounding election season political theater will have at least these traits:

- **Moves college lending outside of government purview and off government balance sheets;**
- **Permits charging off college debt and really, truly assigns those losses to capital; and**
- **Extracts cost limitation agreements and *expanded* commitments to fund underserved / lower income student costs from universities in exchange for the ability to retain not-for-profit status.**

And yes, I'm dead serious about that last one. I believe challenging the assumption of university entitlement to not-for-profit status is the sine qua non of ANY solution to the student loan crisis.

As for the Myth of College? I don't know how we move away from it. Y'all, both conservatives and progressives love to talk New Artisans and the Glories of Welding. One group just talks about it over a beer at the bar, and the other listens to it on This American Life. Same damn thing. But rejecting credentials remains a *for-thee-and-not-for-me* kind of thing. There IS no first-mover advantage to saying that you and yours are choosing to build lives based only on true things like what you know and how hard you work rather than a credential. **Clear eyes, folks**. This is another competition game, another stag hunt.

Whatever we decide, the issue IS coming to a head. I worry that it is going to come to a head in the 'just do something' variety that will lead us to a policy error which aggravates the core problem instead of resolving it. Education, colleges and the student loan crisis sit at the very center of our non-financial zeitgeist. Below is a network map of all the non-financial articles in the LexisNexis Newsdesk database over the last year, arranged by the similarity in the use of language. The highlighted cluster to the right? That's a cluster that's all about education, colleges and student loans.

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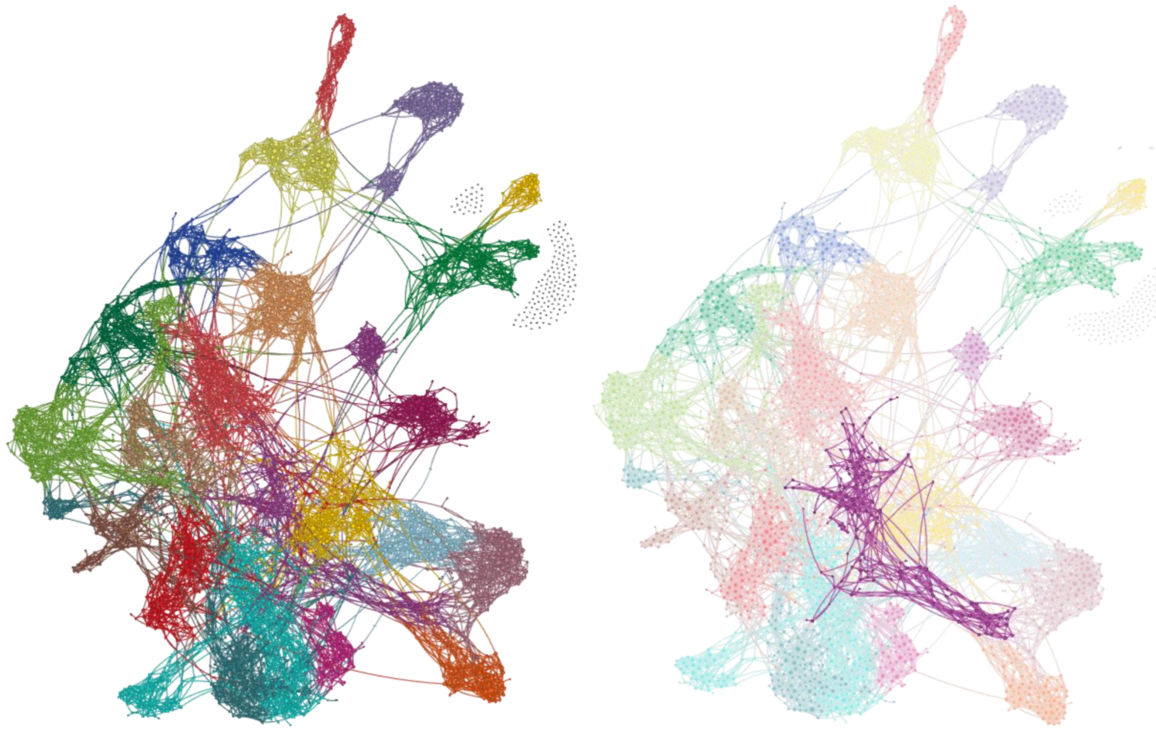
<u>QUID NETWORK GRAPH – NON-FINANCIAL STORIES (4.20.18 – 4.20.19)</u>



The language we use to write and speak about education is powerfully connected to everything else we write and speak about for two reasons. First, it is powerfully connected because education is *topically* connected. Health care institutions are attached to colleges. University research studies influence industry, technology and commercial research. Graduates take jobs in industry. But its powerful connection is also the result of similarity in the *meaning* we attach to education, and how that meaning is shared with topic-crossing ideas like *justice, creativity, discipline* and *progress.*

That is what I mean by the Myth of College. It's a real thing, and it will take all the **full hearts** we can manage to deal with it and *dispose of it*. It is no trivial task to do those things while celebrating the principles like innovation, creativity, hard work, passion, equality and opportunity that we have attached to the Myth of College as synonyms, principles which we have allowed the credential to parade as part of itself. It will be the work of a generation. Our grandchildren are worth the effort. They *deserve* it.

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