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Are We In A Higher Education Bubble?

According to the USA Today, "A weak labor market already has left half of young college graduates either jobless or underemployed in positions that don't fully use their skills and knowledge. Young adults with bachelor's degrees are increasingly scraping by in lower-wage jobs — waiter or waitress, bartender, retail clerk or receptionist, for example — and that's confounding their hopes a degree would pay off despite higher tuition and mounting student loans."

Characteristics of a Bubble

The presence of excessive growth in the supply of credit, i.e., loose monetary policy. For example, the current interest rate for most federal student loans is 3.40%. A student can borrow up to $20,500—no payments are required while the student is in school—and acceptance is not based on credit.

Prices of a particular asset rise far above its fundamental value with an expectation of future price increases. Over the last ten years the average tuition at four-year public universities (not including room and board) rose 72% from $4,790 to $8,240 per year.

An excessive accumulation of debt. The average student loan debt for bachelor's degree recipients is $26,269 (in 2010 dollars). Outstanding student debt in this country now exceeds the total credit card debt of all Americans.

When an asset becomes the focus of intense speculative interest. The asset, of course, is a college degree, and the speculation is that this college degree will guarantee a higher-paying job. As stated above by USA Today, this is not necessarily the case. Unemployment for college graduates in the U.S. stands at 16% compared to an overall unemployment rate of 8.1%.

A Comparison

During the housing craze there was easy credit. Housing prices were overblown with the perception that they would continue to rise. Heavy debt burdens were accumulated, and flipping houses to make quick money became the norm. Then Humpty Dumpty had a great fall.

Should so many people have rushed to buy a house? I think not. Should so many high-school graduates rush into college? I think not. Don't get me wrong; I think everyone should have the opportunity to attend college. At the same time, however, I think people should slow down and consider if it's right for them or if it's the right time.

Bad Choices?

According to Robert Lucas, Nobel Laureate economist, post-World War II growth rates for both Europe and the U.S. averaged around 3% annually. But starting in the mid-1970s, the average annual growth rate for Europe fell below that and has remained there ever since. Mr. Lucas believes this is due to Europe's social-welfare commitments it made after the war. The share of income many Americans receive from government benefit programs like Medicare, Medicaid, and Social Security has more than doubled over the last four decades, rising from 8% in 1969 to 18% in 2009.

Are we following in the EU's footsteps? This slow growth is especially hard on the youth. The European Union (EU) youth unemployment rate stands at 22.4%, with Spain leading the way at 50% and Italy with 36%. <u>I suggest we keep an eye on the youth unemployment rate in the U.S. If college graduates continue to experience difficulty finding work, this might be the best indicator for forecasting the future growth rate in our country.</u>