

Cato's Letter

*A Quarterly
Message
on Liberty*

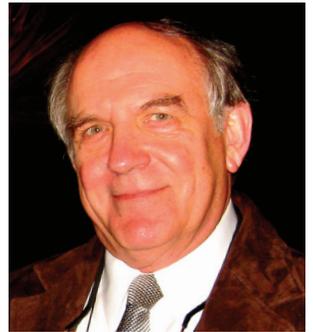
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The Coming Collapse of the BA Bubble

CHARLES MURRAY

We have developed social classes in this country that are different in kind from any we have known before. In fact, economic inequality has almost nothing to do with the problem today. What has occurred instead is cultural segregation, and one of the great culprits in producing this kind of inequality has been our system of higher education.

The Bachelor of Arts degree wreaks harm on a majority of young people. It is grotesquely inefficient as a source of information for employers. And, perhaps most importantly, it's implicated in the emergence of a class-riven America. As such, the proposition that I hereby lay before you is that the BA is the work of the devil. But before explaining why that's the case, let me specify a few things that I'm not arguing.



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I am not complaining that too many people are getting an education after high school. On the contrary, I am in favor of education after high school for almost all young people. I am not denying that the possession of a BA is statistically associated with higher income across the life span and that this economic benefit persists after controlling for measures of human capital, field of study, and other background variables. And I am not disparaging the value of a liberal education, classically understood. On the contrary, I think far too few young people are exposed to the stuff of a liberal education.

So what's my beef with the cur-

riculum, because it did in fact open up all sorts of occupations that were not available to you if you did not have a BA. Many of those occupations paid more money, they did not involve physical labor, and it was perfectly reasonable to equate sending your kids to college with "making it" in America.

If you were an employer in 1960, for example, you could make some reasonable assumptions about what a BA signified in an applicant. It showed that they had gotten four years that in some sense resembled a classical liberal education where they were forced to come to grips with some of the greatest works of the human mind. The degree, in

other words, could reasonably lead you to think that you were hiring somebody who brought important qualities to the table.

But only about 10 percent of the adult population had BAs at that time—and, over the course of the 20th century, three trends gathered strength. The first was the increasing proportion of jobs screened for high academic ability due to the advanced level of education they required—engineers, physicians, attorneys, college teachers, and the like. The second was the increasing market value of those jobs. The third was the opening up of college to more of those who had the academic ability to go to college, due to both increased wealth and the proliferation

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rent system? Initially, the BA was the marker whereby a farm family or a factory worker or a new immigrant could say that they had succeeded because their children went to college. There was a legitimate reason for seeing a college education in

that light, because it did in fact open up all sorts of occupations that were not available to you if you did not have a BA. Many of those occupations paid more money, they did not involve physical labor, and it was perfectly reasonable to equate sending your kids to college with "making it" in America.

of scholarships and loans.

The combined effect of these trends has been to overturn the state of affairs that prevailed during the first half of the last century. Now about one third of all adults have a BA. In the process of that increase, a variety of pernicious developments have come to light.

The first is that parents are not eager for their kids to get an education. They're eager for them to get the piece of paper, because it's the piece of paper that is increasingly required to get a job interview. As the BA began to take on this gateway function, the customer started asking for something that the school could provide independently of the quality of education. And what happened as a result? Schools had every incentive to produce as many graduates as possible but no incentive to improve their product. As such, any remnants of a classical liberal education have mostly disappeared from college campuses.

What do you know as an employer if a candidate walks in with a BA? To be fair, if that person has gone to an elite college, the BA does tell you something. It is an indicator that the person was a terrific student in high school and that they may have a certain amount of raw intellectual ability that could be useful after proper job training. But for the vast majority of undergraduate colleges and universities, you don't even know if that person can write a coherent sentence. You certainly know

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nothing about whether they've been taught to think rigorously. In short, you know nothing about the kinds of skills that they bring to the job—skills that you could've assumed were there some years before.

The reality is that we have a piece of paper that for most students in most majors is close to meaningless. It is serving a gateway function that the majority of young Americans cannot reasonably aspire to attain. And it exists in the context of a culture—and a president—that says everyone should go to college.

So what? Well, the first problem with this new state of affairs is stigma. Through the first half of the 20th century, there were all sorts of respectable reasons why a person might not go to college: not enough money; needing to work to support family; the commonly held belief that going straight to work was better preparation for a career than going to college. Today, however, the acceptable excuses for not going to college have dried up. To be a high school graduate these days carries with it a badge of second-class

citizenship that is utterly unwarranted. But it is unmistakably there. And the more people enroll, the more stigmatizing the failure to complete college has become.

Second, there is the issue of misaligned ambitions. This refers to the very large number of high school kids who have aspirations to become

an attorney, an orthopedic surgeon, a CEO—aspirations that are out of line with their academic performance. As a society, we insist on encouraging them to develop these misaligned ambitions because we refuse to acknowledge what it takes to rise to the top of one of these fields, for fear of selling our children short. At the same time, we refuse to acknowledge all of the interesting, satisfying, reward-

ing ways of making a living that have nothing to do with a college degree. It's a classic case of emperor's clothes, and the people who are suffering from it do not constitute a minority of the young people in this country. They constitute a majority.

Finally, an awful lot of kids start college and don't finish. They enroll, take out college loans, don't complete their degree for whatever reason—and they end up getting started in life with a six-figure debt on their hands because of a belief that in

order to be successful, you first need to attain a meaningless piece of paper.

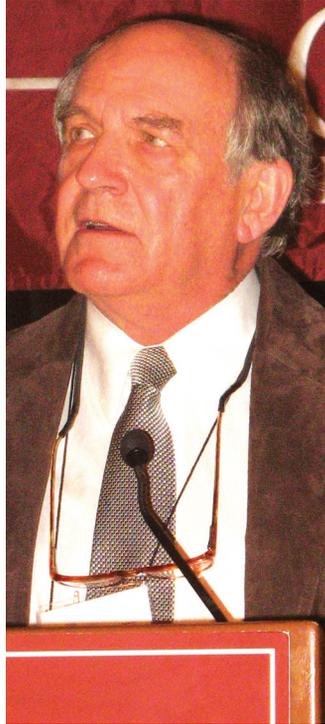
So what can we do? The good news is that the conditions are right for change. There is a diverse world of work out there, filled with jobs that are interesting, well-paying, and intrinsically rewarding, that do

not call for the kind of training that colleges are designed to provide. There is a vital and growing world of online education that is revolutionizing the possibilities for delivering post-secondary instruction.

There is also an alternative system in the shadows. Consider, for instance, the Certified Public Accountant (CPA) exam. The test is very thorough, and to achieve a passing score indicates au-

thentic competence. Actual scores are reported, so that employers can assess where the applicant falls on the distribution of accounting capability. And hundreds of certification tests already exist, for everyone from building code inspectors to advanced medical specialists.

No technical barriers stand in the way of evolving toward a system where certification tests would replace the BA. The problem is a shortage of tests that are nationally accepted like the CPA exam. But



when so many of the players would benefit, a market opportunity exists. If a high-profile testing company were to reach a strategic decision to create definitive certification tests, it could coordinate with major employers, professional groups, and nontraditional universities to make its tests the gold standard. A handful of key decisions could produce a tipping effect.

In my ideal system, the college campuses of America will still exist and they will still be filled with students. Some of those students will be staying for four years as before, but many others will be arriving and leaving on schedules that make sense for their own goals. The colleges in my ideal system will have had to adapt their operations to meet new demands, but changes in information technology are coming so fast that major adaptation is inevitable anyway.

The greatest merit of my ideal system is this: hardly any jobs will still have the BA as a requirement for a fair shot at being hired. Employers will rely more on direct evidence about what the job candidate knows, and less on where it was learned or how long it took. The

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demonstration of competency in European history or marketing would, appropriately, take on similarities to the demonstration of competency in cooking or welding. Our obsession with the BA has created a two-tiered entry to adulthood, anointing some for admission to the club and labeling the rest as second-best.

Here’s the reality: everyone in every occupation starts as an apprentice. Those who are good enough become journeymen. The best become master craftsmen. This is as true of history professors and business executives as of chefs and welders. Getting rid of the BA and replacing it with evidence of competence—treating post-secondary education as apprenticeships for everyone—is one way to help us to recognize that common bond. ■



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Cato Scholar Profile: **LOUISE C. BENNETTS**

LOUISE C. BENNETTS is associate director of financial regulation studies at the Cato Institute. She focuses on the impact of financial regulatory reform since 2008, including the attempts to address “too big to fail” and the effect of reforms on nonbank financial companies. Prior to joining Cato, she was a senior associate in the New York office of Davis Polk & Wardwell. Bennetts holds a first-class honors degree in economics and an LLB (cum laude) from the University of Cape Town. She is a member of the New York Bar.

What drew you to the Cato Institute from practicing law?

As an attorney in private practice, one is very limited in terms of the nature and level of public involvement that one can engage in. One cannot speak publicly, write for broader publication, or take a strong public stance (particularly at the associate level) without jumping through a number of hoops.

That said, for me personally it became increasingly frustrating to watch the passage of so many rules and regulations and the destructive impact they were having. What was worse was reading the coverage in the popular press where, with a few notable exceptions, many commentators really didn't seem to understand the institutions, products, and markets they were writing about. The next few years truly will set the stage for the future. If 2008 taught us anything, it is that what happens in the financial sector quickly reverberates through the broader economy.

In terms of my specific involvement with Cato, I have been a longtime classical liberal and interned here early in my career. Given Cato's consistent and principled approach to deregulation, it seemed like a natural fit.

What is the biggest problem with the Dodd-Frank Act as it stands?

There are numerous specific problems with the Act, but the single biggest issue is the wideranging, unfettered discretion that the Act gives regulators. This is a problem for the rule of law: we have an elected Congress that should be overseeing this, but they have large-

ly abdicated their responsibility. It also makes it harder to monitor and prevent unelected officials from picking and choosing winners and losers in the marketplace.

Furthermore, this kind of regulatory uncertainty is very injurious to long-term growth. In order for banks and other financial companies to adhere to these rules, they need to know what they are, who is enforcing them, and how they are being implemented over the long run. In 1980 Milton Friedman wrote an op-ed in the *Wall Street Journal* in which he gave advice to Ronald Reagan on establishing policy. One of the key things he highlighted was that consistency and transparency in policymaking is critical to long-term growth. Dodd-Frank represents a major departure from this principle.

Are there any good prospects for reform of this Act?

I think it is highly unlikely that Dodd-Frank will be repealed unless a court strikes it down. There are a number of constitutional challenges underway, and these may prevail with respect to specific issues—for example, the Consumer Financial Protection Bureau and parts of the Orderly Liquidation Authority. Certain regulations can be attacked through the courts on the grounds that they are arbitrary and capricious. However, I think we will see an ongoing refinement and rewriting of some of the rules associated with the Act. Unfortunately, that very process is likely to contribute to further uncertainty in the marketplace. ■

Fiscal Cliff Legislation— a Mixed Bag



On January 2, President Obama signed into law the “American Taxpayer Relief Act of 2012,” commonly referred to as the fiscal cliff legislation. Since this legislation raises rates and limits itemized deductions for high-income folks, one can question whether the Act should properly be titled a “Relief Act.” Presumably the only justification for this titling is that the legislation did not raise rates and limit deductions for all taxpayers. Scant justification!

STABILITY FOR THE ESTATE TAX

However, this new legislation does at least stabilize the situation for those concerned about the estate tax. The maximum estate, gift, and generation-skipping transfer (GST) tax rate is now 40 percent, up from 35 percent. The lifetime exemption, however, remains at \$5 million, indexed for inflation. It is also important to know that this legislation makes portability permanent, which means that the surviving spouse may elect to use his or her deceased spouse’s unused gift and estate tax exemption, thereby maximizing both spouses’ lifetime exemptions. Stated simply, a married couple can now pass on up to \$10 million without having to worry about estate taxes. What’s more, these rates and exemption levels are likely to remain permanent, free from the kind of constant tinkering we saw over the last 10 or so years.

From an estate planning perspective, this legislation is not the worst possible result. In its absence, rates were scheduled to go as high as 55 percent and the exemption would have been reduced to a paltry \$1 million. However, it is a long way from a total repeal of estate taxes, a result long advocated by Cato scholars. Our scholars argue that the estate tax is unduly complex and administratively ineffi-

cient in that it raises small amounts of revenue while spawning a cottage industry of “estate tax planning.” They also point out that it is inherently unfair since it is tantamount to double taxation—taxing assets already subject to income/capital gains taxes during life.

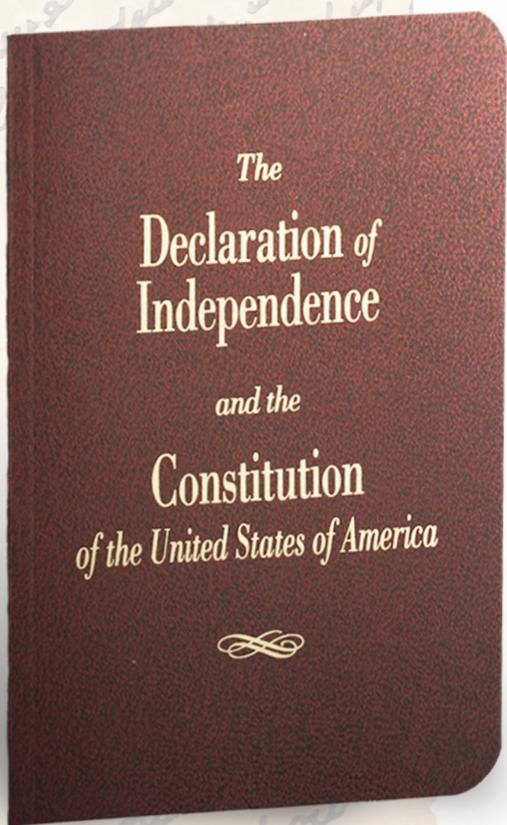
THE IRA CHARITABLE ROLLOVER IS BACK

The fiscal cliff legislative package brought back another old-timer: the IRA charitable rollover. Just to refresh your memory, this is the provision which allows both traditional and Roth IRA owners, age 70½ and older, to make tax-free transfers up to \$100,000 directly from their IRAs to qualified charitable organization, such as Cato. Since a distribution made under this rule won’t be included in income, you won’t receive an income tax charitable deduction. The major advantage of this “direct to charity” set-up is that the amount donated won’t be subject to the various limitations on itemized deductions.

Unlike the estate tax, this rollover provision is not permanent and it is currently available for 2013 only. Some complex transitional provisions also allowed folks to take advantage of it in their 2012 returns, based on specially designated January 2013 transactions. This transitional window is now closed—so it’s 2013 or nothing. One can only hope that at some point Congress will decide to make this benefit permanent and stop the endless back and forth of expiration and reinstatement.

If you have question about these provisions or other estate planning matters, please contact Cato’s director of planned giving, **Gayllis Ward** at gward@cato.org or **202-218-4631**. ■

The Pocket Constitution—National Bestseller



To encourage people everywhere to better understand and appreciate the principles of government that are set forth in America's founding documents, the Cato Institute published this pocket edition (3.5" x 5") of the Declaration of Independence and the Constitution of the United States of America. With more than five million copies in print, this edition's influence has been observed far and wide. It has been held up by senators at press conferences and by representatives during floor debate; found in federal judicial chambers across the country; appeared at conferences on constitutionalism in Russia, Iraq, and elsewhere; and sold at bookstores nationwide. It includes the Bill of Rights and all of the amendments.

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