Inflation—Monetary and Educational

BY GEORGE C. LEEF

Thanks mainly to the Austrian economists, especially Ludwig von Mises, monetary inflation is a phenomenon that is well understood. When the state overproduces money, certain consequences necessarily ensue.

The supply of money is not, however, the only thing that government inflates, or overproduces. Something else it has inflated is the production of educational credentials, college degrees in particular. That has been accomplished through the heavy subsidization of college attendance. State governments have chosen to subsidize it through low tuition. In most states, student payments cover less than half of the cost of running the state university system. North Carolina even has a vague constitutional provision requiring that the expense of attending the University of North Carolina be kept as low as "practicable."

Federal subsidization of higher education dates from 1944 with the enactment of the G.I. Bill, which declared that returning soldiers were entitled to free college tuition. Later the feds added loans at below-market rates for college students and grants to students from families with incomes under a certain threshold. Many colleges and universities are now heavily dependent on federal student aid. If those programs were ended, it would mean death or at least severe downsizing for hundreds of schools.

By lowering the cost of going to college, government has given a huge boost to enrollments. At the end of World War II only about 13 percent of students who graduated from high school went on to college; today that figure is about 70 percent. Not all of that growth is due to government subsidization—higher education is something of a luxury good and demand for it would certainly have risen along with our increasing affluence—but the impact of subsidies cannot be doubted. Far more students go to college than would be the case if government did not subsidize it.

I find that there are a number of parallels between the overproduction of money and the overproduction of education that are worth examining.

The most widely recognized effect of monetary inflation is that it lowers the value of money. As government produces more and more money, the purchasing power of each unit of money inevitably declines. During the German inflation following World War I, people had to bring suitcases full of depreciated paper currency to make even the simplest of purchases.

There has been an analogous decline in the value of the college degree as higher education has changed from something that only a few students pursued to a mass consumer product. Professors will candidly say that they have watered down their courses to suit the demands (and abilities) of today's students. The tough courses that remain can usually be avoided, since most schools allow students to choose from a smorgasbord of offerings. Academic standards have plunged while grades have steadily risen. Where a college degree used to be a reliable indicator that the individual could at least write reasonably well, that's no longer the case. The recent report of the National Commission on Writing, "Writing: A Ticket to Work . . . Or a Ticket Out," contains statements like this from business leaders: "The skills of new college graduates are deplorable—across the board; spelling, grammar, sen-

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tence structure. . . . I can't believe people come out of college now not knowing what a sentence is."

The chief reason for this educational depreciation is that, in their efforts to expand, colleges and universities have admitted more and more students who are ill-prepared for and indifferent to serious academic work. Professor Paul Trout calls them "disengaged students." They dislike reading and usually will not do reading assignments. They want their "education" to be easy and fun. They resent criticism and are apt to protest any grade lower than a B. Professors who insist on grading students objectively, which would mean assigning a lot of D's and F's, can expect administrative pressure to "lighten up" on the students, lest they go elsewhere.

Here I will readily admit that there is an important difference between monetary inflation and educational inflation. When the money supply is inflated, the value of every unit of money declines. With educational inflation, however, that is not necessarily the case. It is still possible for a student who really wants to get a solid, rigorous education to do so. A motivated student can find schools that have not succumbed to the widespread dumbing-down, or find the remaining courses and departments that are still strong in schools that by and large have succumbed. Educational inflation has not uniformly lowered the value of college studies, although it clearly has done so generally.

Early Beneficiaries

Another consequence of monetary inflation, the Austrians have explained, is that early recipients of the new money gain the benefits. That's because they get to spend the new money before prices have had a chance to increase. As inflation continues, the market will adjust, prices will generally rise, and people will find that their money holdings have lost value. Monetary inflation therefore only appears to make some people richer in the short run.

The same thing is true regarding educational inflation. When the GI Bill was new, the fairly small number of veterans who took advantage of its college subsidy obtained something that was relatively rare and highly esteemed—a college degree. In the 1940s and 1950s, when even a high-school diploma was far from universal, having a college degree was quite a mark of distinction, giving its holders a considerable competitive advantage in the job market.

As educational inflation has progressed, however, the bachelor's degree has become commonplace and no longer confers much benefit on its holders. Instead of being a mark of distinction that reliably indicates an advanced level of intellectual accomplishment, the B.A. has come to be merely an expected credential. Many employers now require a college degree of applicants for entry-level jobs that could be done by an intelligent high-school graduate. It isn't that the work is so difficult that it couldn't be done by anyone with a reasonably good high-school education, but that with such huge numbers of college graduates in the job market, firms often choose to set a college degree as a crude screening device. Employers assume that anyone without a degree would probably be difficult to train. The requirement rarely has anything to do with necessary skill or knowledge that could only be learned in college coursework. It is simply a vote of "no confidence" in our K–12 system.

Consider such jobs as bank teller or mortgage loan officer. Many (but not all) employers in banking and lending now insist that applicants have a college degree. Are those jobs so much more demanding than they were 40 years ago when they were almost invariably filled by high-school graduates? No. The college degree requirement is simply credential inflation. Professor David Labaree writes about this trend in his book *How to Succeed in School Without Really Learning*:

> [T]he population becomes overcredentialed, as people pursue diplomas less for the knowledge they are thereby acquiring than for the access that the diplomas themselves will provide. The result is a spiral of credential inflation, for as each level of education in turn gradually floods with a crowd of ambitious consumers, individuals have to keep seeking ever higher levels of credentials in order to move a step ahead of the pack. . . . Employers keep raising the entry-level education requirements for particular jobs (as the average education level rises), but they still find that they have to provide extensive training before employees can carry out

their work productively. At all levels, this is an enormously wasteful system. (p. 259)

Therefore, like monetary inflation, which benefits the small number of early money recipients, educational inflation benefits the small number of early degree recipients. In the long run, however, both the diminution in value of money and the diminution in value of college studies leaves no one better off.

Distortion

The Austrian economists have shown that monetary inflation entails real economic losses in that it distorts economic decision-making. If inflation occurs through a central bank (as it does in the United States through the operations of the Federal Reserve System), it initially drives down interest rates, thereby giving a boost to industries that are sensitive to the cost of borrowing. Construction, for example, tends to boom during the early stages of inflation as people are led to believe that building projects that previously looked too costly will now be profitable. But when, as is inevitable, inflation no longer can artificially depress interest rates, the over-expanded construction industry will have to shrink. Many workers will be laid off, and some firms may fold. Monetary inflation thus brings about wasteful and shortsighted economic decisions.

Exactly the same is true of educational inflation. Subsidies make college attendance artificially more attractive to young people, and more of them choose to go to college than would without subsidies. This leads to two wasteful distortions.

First, we have a far larger higher-education establishment than we would if college were subject to the test of the market. Colleges and universities have built buildings and hired professors and administrators at a rapid pace during the period of the big subsidy. In the absence of educational inflation, those resources would be put to more productive use. There wouldn't be nearly as many professors in academically dubious fields such as women's studies or vocational programs such as casino management if it weren't for the subsidization of college.

Second, many students who are lured into college would have been better off if they had pursued career training instead. A recent article in *Forbes* ("Bumper to Bumper Education," September 6, 2004) points out that while good auto mechanics can now easily earn $75,000 per year, we currently have a shortage of them. On the other hand, the United States has such a glut of college graduates that many of them wind up delivering pizza or selling video games. Clearly, we are wasting manpower in putting so many young people through college just to obtain a credential that has become almost worthless, while we need more people to go into fields such as auto repair. We have, in other words, distorted the labor market by overselling higher education. Students are making educational malinvestments, just as businessmen make economic malinvestments during monetary inflation.

Because subsidies have so much political support, we today have a massively inefficient higher-education system. Hundreds of thousands of academically weak students are lured into colleges and universities every year with the idea that getting a college degree is essential for good employment, and higher-ed leaders wheedle billions of dollars from legislators with the claim that more education spending will somehow supercharge the economy. Instead of highly educated young people and an economic boost, all we've gotten is inflation. In a process similar to that of monetary inflation, educational inflation benefits only a few people in the short run while depressing the value of education in the long run for everyone. And like monetary inflation, educational inflation leads to waste by distorting the choices people make.

The solution to educational inflation is for the state and federal governments to stop subsidizing college and university attendance. If higher education had to pass the test of the market, most of the weak students would stop attending. Credential inflation would ratchet down. Many professors and administrators would have to find more productive employment. We would have fewer pizza-delivery drivers with bachelor's degrees, but more mechanics.

Nations cannot make themselves wealthier by the overproduction of money, and neither can they make themselves smarter by the overproduction of formal education.

Book Reviews

The Dictators: Hitler's Germany, Stalin's Russia

by Richard Overy

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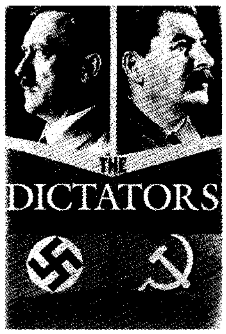
Reviewed by Richard M. Ebeling



Throughout the 1930s the propaganda machines of the Nazi and Soviet regimes did all in their power to insist that they were ideological enemies, diametrically opposed to each other in every conceivable way. There were critics of totalitarianism who emphasized the similarities in the two systems, but theirs was a minority view among many intellectuals, especially on the political left, during the decades of the Cold War and after.

When the masterful and detailed study of twentieth-century communist regimes, *The Black Book of Communism*, was first published in France in the 1990s, for instance, one French leftist tried to rationalize the human cost of socialist tyranny by arguing: "Agreed, both Nazis and communists killed. But while the Nazis killed from hatred of humanity, the communists killed from love."

Nazis, it seems, had bad intentions and used bad methods. Communists, on the other hand, had good intentions—they loved their fellow man and wanted to create a utopia for him—they just made an unfortunate error in selecting less-than-desirable means. Oh, well, back to the drawing board!

Richard Overy's recent work, *The Dictators: Hitler's Germany, Stalin's Russia*, is the most detailed and methodical study, so far, of what the two totalitarian regimes shared in common and in what ways they differed. Indeed, there are few aspects of political, economic, social, and cultural life in Nazi Germany and the Soviet Union that do not receive meticulous analysis from the author.

It is in the concluding chapter of the book that one discovers what Overy considers the most fundamental premises of the two regimes. Both the Nazis and the communists, he argues, were guided by the spirit of scientism: the misplaced application of the methods of the natural sciences to the arena of human life. Marxian socialists were convinced that they could deduce the "laws" of historical development that necessitated the inevitable triumph of "the workers" over their capitalist exploiters. In addition, they believed that once the revolution had been orchestrated, the "dictatorship of the proletariat" had the ability to remake man and transform society into a collectivist paradise.

The Nazis also believed in the power of science, but in their case it was a "racial science" that defined different human groups and their hierarchical relationships to each other. Through application of eugenics, a purified "master race" could be socially engineered, with "the Germans" being the superior breed meant to rule the world.

Communism and Nazism, therefore, were variations on the same collectivist theme, in which the individual and his identity as a person were determined by either his "class" or "race." Both were paranoid in their outlook on life. Nazis saw racial threats everywhere, in the form of inferior groups that could defile Germany's blood purity. Communists saw class enemies surrounding and threatening the existence of the Soviet workers' state. Vigilance at the borders and secret-police terror internally were essential for the regimes to preserve either the master race or the proletarian paradise.

Hitler and Stalin were convinced of their unique and irreplaceable roles in making history. Hitler believed that just as there is a master race among humanity, so there is a master leader within the master race, who through intuition, insight, and will power knows what is needed to assure the rightful place and destiny of the German people. Fate had called him to that task. Following in Lenin's footsteps, Stalin believed that socialist victory was impossible without professional revolutionaries who served as the vanguard of the proletariat. Among the vanguard there was the necessity for one determined leader to head the movement, with "history" having assigned Stalin this momentous duty.

For Hitler and Stalin, their ruthlessness and disregard of human life were essential to fulfill their role as leaders of the Nazi and communist causes. What was,