

The Worst Malinvestment

Austrian Economics argues that growth comes from innovation and entrepreneurship, with “the market” directing resources to areas of the economy that provide the greatest returns. It also observes that when government uses interest rates, subsidies, taxes, or other types of market interference, it can cause “malinvestment” – or investment in areas that wouldn’t receive market support. This leads to losses and wasted resources.

While there are many examples of this as government has become bigger and more unaccountable, recent events on many college campuses around the US show some of the worst malinvestment our country experiences year in and year out.

Public universities certainly don’t run like capitalist institutions, but neither do private colleges (like the Ivy League). While people complain about all kinds of corporate welfare, what about university welfare? The eight Ivy League Schools, plus Northwestern and Stanford (all private) received \$33.1 billion in grants and contracts from the federal government between 2018 and 2022 in data calculated by Open the Books.

Meanwhile, the government has given \$1.6 trillion in “loans” to young people to buy the “services” of schools and their academics. Although these loans are sold as a good thing for young people, we think the main effect is to create jobs for and support the wages of academics who get to pocket the money whether their work leads to new inventions and innovation or a disdain for freedom, capitalism, and America itself.

Yes, it’s certainly true that most people with high-paying jobs have gone to college. But, as George Mason economist Bryan

Caplan found, a college degree isn’t actually the cause. They earn more because they’re often highly intelligent, very conscientious, or willing to conform to a corporate culture. Sometimes all three! So unless you’re pursuing a degree in something where you need a specific body of knowledge, like medicine or engineering, going to college likely just signals natural intelligence, conscientiousness, and corporate conformity, not important knowledge.

In turn, Preston Cooper at FREOPP.org has researched about 30,000 bachelor’s programs around the country and found that more than 25% of programs experience a *negative* return on investment (ROI), which certainly helps explain why so many people feel burdened by student loans. And, going to a very selective school is no guarantee of a positive ROI.

We can’t help but wonder if these economic realities, and evidence of malinvestment, aren’t at least partly responsible for turmoil on college campuses. After all, malinvestment leads to slower long-term economic growth, which undermines growth in living standards. More debt and less growth are a recipe for bad outcomes.

We aren’t positive everyone will see it this way, but the data and reality on the ground seem to be saying the US ought to find a way to separate academia and government. One key item, which we have mentioned before, is that universities and colleges should be on the hook for all, or at least a portion, of unpaid student loans. And why does the federal government give billions to schools who have massive and un-taxed endowments? Any action, which reduces malinvestment, will lead to better outcomes for all.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-30 / 8:45 am	Chicago PMI – Apr	45.0	43.2		41.4
5-1 / 9:00 am	ISM Index – Apr	50.0	49.9		50.3
9:00 am	Construction Spending – Mar	+0.3%	+0.6%		-0.3%
afternoon	Total Car/Truck Sales – Apr	15.7 Mil	15.8 Mil		15.5 Mil
afternoon	Domestic Car/Truck Sales – Apr	12.2 Mil	12.2 Mil		12.0 Mil
5-2 / 7:30 am	Initial Claims – April 27	212K	210K		207K
7:30 am	Int’l Trade Balance – Mar	-\$69.5 Bil	-\$68.9 Bil		-\$68.9 Bil
7:30 am	Q1 Non-Farm Productivity	+0.8%	+0.3%		+3.2%
7:30 am	Q1 Unit Labor Costs	+3.2%	+6.4%		+0.4%
9:00 am	Factory Orders – Mar	+1.5%	+1.7%		+1.4%
5-3 / 7:30 am	Non-Farm Payrolls – Apr	244K	208K		303K
7:30 am	Private Payrolls – Apr	195K	152K		232K
7:30 am	Manufacturing Payrolls – Apr	5K	0K		0K
7:30 am	Unemployment Rate – Apr	3.8%	3.8%		3.8%
7:30 am	Average Hourly Earnings – Apr	+0.3%	+0.3%		+0.3%
7:30 am	Average Weekly Hours – Apr	34.4	34.4		34.4
9:00 am	ISM Non Mfg Index – Apr	52.0	52.0		51.4