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Why Are So Many College Graduates Driving Taxis?

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By Peter R. Orszag a A

It's a parent's nightmare: shelling out big money for college, then seeing the graduate unable to land a job that requires high-level skills. This situation may be growing more common, unfortunately, because the demand for cognitive skills associated with higher education, after rising sharply until 2000, has since been in decline.

So concludes new research by economists Paul Beaudry and David Green of the University of British Columbia and Benjamin Sand of York University in Toronto. This reversal in demand has caused high-skilled workers to accept lower-level jobs, pushing lower-skilled people even further down the occupational ladder or out of work altogether. If the researchers are right (which is not yet clear), the consequences are huge and troubling -- and not just for college grads and their parents.

Let's start with some basic facts. There have always been some graduates who wind up in jobs that don't require a college degree. But the share seems to be growing. In 1970, only 1 in 100 taxi drivers and chauffeurs in the U.S. had a college degree, according to an analysis of labor statistics by Ohio University's Richard Vedder, Christopher Denhart and Jonathan Robe. Today, 15 of 100 do.

It's hard to believe this is because the skill required to drive a taxi has risen substantially since 1970. If anything, GPS technology may have had the opposite effect. (Acquiring "the knowledge" of London streets, as taxi drivers there are required to do, is cognitively challenging, but it may no longer be necessary.)

EDUCATED FIREFIGHTERS

Similarly, in 1970, only about 2 percent of firefighters had a college degree, compared with more than 15 percent now, Vedder and his colleagues found. And, according to research by economists Paul Harrington and Andrew Sum of Northeastern University, about 1 in 4 bartenders has some sort of degree.

Beaudry and his colleagues say that such change has been driven by a decline in the demand for highly skilled work -- the opposite of the conventional wisdom about such demand. The employment rate in “cognitive” occupations -- managerial, professional and technical jobs -- increased markedly from 1980 to 2000, their research found, but it has since stagnated, even as the supply of skilled workers has continued to grow.

What has changed? One possibility, as I’ve previously written, is that the effects of a globalizing workforce are creeping up the income scale. Many jobs that once required cognitive skill can be automated. Anything that can be digitized can be done either by computer or by workers abroad. While the “winner take all” phenomenon may still mean extremely high returns for workers at the very top, that may be relevant for a shrinking share of college graduates.

Whatever the explanation, the Beaudry team argues that an excess of skilled workers has led them into the “routine” job market -- such as sales and clerical jobs -- reducing wages there and pushing less skilled workers into “manual” jobs in construction, farming and so on.

What’s puzzling here is that it seems inconsistent with evidence that the wage premium enjoyed by college graduates has persisted. For example, a recent paper by Philip Oreopoulos and Uros Petronijevic of the University of Toronto (yes, Canadian economists seem to dominate this aspect of the U.S. labor market) found that the earnings premium for college graduates has risen substantially over the past several decades and that investment in college “appears to pay off for both the average and marginal student.”

The still-strong earnings premium strongly suggests that the demand for skill has not collapsed. After all, if cognitive skills became less valuable in the labor market, wouldn’t one expect wages to fall more for college graduates than for others?

FALLING WAGES

Not necessarily, Beaudry and his colleagues argue. They find that while wages for jobs requiring cognitive skills have declined, the shift of high-skilled workers into those jobs has depressed wages for manual workers even more.

That’s a provocative argument. Still, it may be that the Beaudry team’s results are sensitive to the way they define “cognitive” jobs and “manual” ones. Also, it’s not entirely clear how much the recent recession has influenced their results.

In any case, the findings will do little to calm the nerves of graduates who are anxious to find jobs.

The cold comfort I can offer is this: Going to college may still be worthwhile -- if not to be sure of qualifying for skilled jobs, then at least to avoid the even worse prospects of those who don’t get a degree.

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