HIGHER EDUCATION

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THE ISSUE: U.S. HIGHER EDUCATION POLICY HAS PROVEN TO BE COUNTERPRODUCTIVE FOR MANY AMERICAN WORKERS, PRODUCING BALLOONING COLLEGE PRICES, LEADING EMPLOYERS TO DEMAND CREDENTIALS THEY DON'T NEED, AND FAILING TO PROVIDE COMMENSURATE INCREASES IN KNOWLEDGE OR SKILLS

Public policy has typically tasked elementary and secondary schools with producing "college- and career-ready" graduates, but with emphasis heavily on the former. It is in college that we have come to expect students to obtain specific skills and knowledge—human capital—for employment. But for many American workers, the higher education system has proven itself to be counterproductive, issuing too many empty degrees at prices that are too high and at rates that have put too many workers on a relentless credential treadmill. These burdens can weigh not only on prospective American workers but also on their employed parents who help shoulder the costs of education.

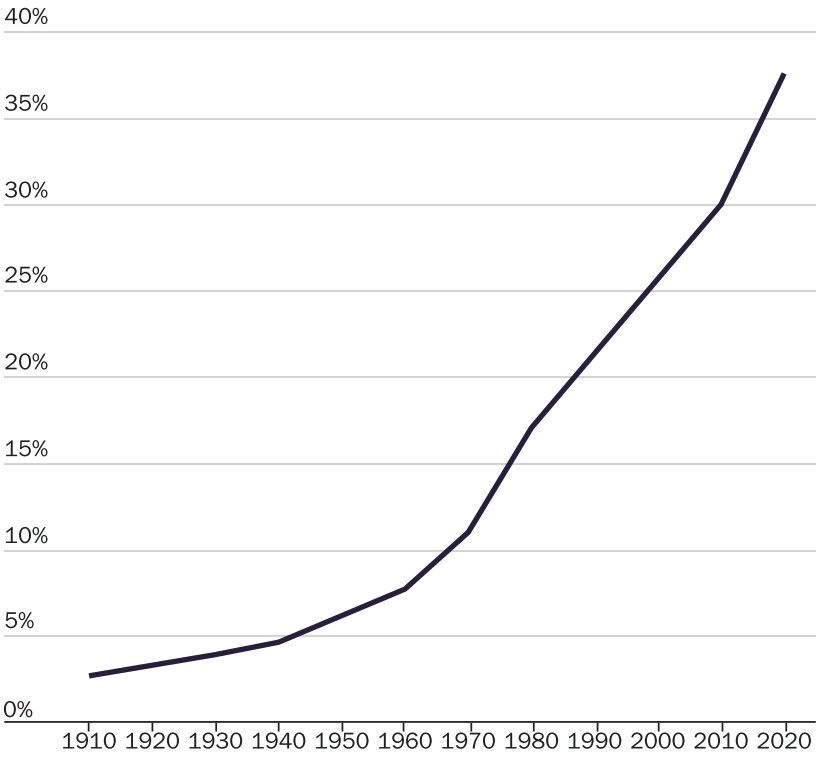
Going to college may now seem commonplace, but it is a relatively recent development. The share of the U.S. population aged 25 and over with a bachelor's degree did not hit 5 percent until about 1950, did not reach double digits until around 1970, and is still well under half, as Figure 1 shows.

For most of American history, colleges offered little practical instruction, focusing on religion and associated subjects, such as Greek, Latin, and philosophy. The federal government tried to change this by expanding higher education's reach in the 19th century via land grants, which produced funding to expand public colleges and the teaching of more practical subjects, such as agriculture and mining. These initiatives, however, did not greatly increase college attendance.[1]

What most spurred college enrollment appears to have been not an increasing need for skills and abilities that could most efficiently be transmitted via formal postsecondary schooling—a majority of Americans aged 25 and older had not completed *high school* until around 1965—but government subsidies.[2]

The first noticeable kink in Figure 1 is after 1940, corresponding with the passage of the Servicemen's Readjustment Act of 1944 (colloquially known as the G.I. Bill), which furnished billions of dollars to send newly returned World War II veterans to college. The bill's primary goal was to keep servicemen from flooding the labor market, not to increase their knowledge and skills. Within seven years, 2.3 million veterans had enrolled in college, versus total college enrollment in 1939–1940 of only 1.5 million.[3] Federal aid accelerated after the Soviet launch of Sputnik in 1957, which threw Americans into a panic over a

FIGURE 1 The percent of the U.S. population aged 25 or older with a bachelor's degree has risen 14-fold since 1910



Source: "Table 104.10: Rates of High School Completion and Bachelor's Degree Attainment among Persons Age 25 and Over, by Race/Ethnicity and Sex: Selected Years, 1910 through 2021," Digest of Education Statistics, National Center for Education Statistics, U.S.

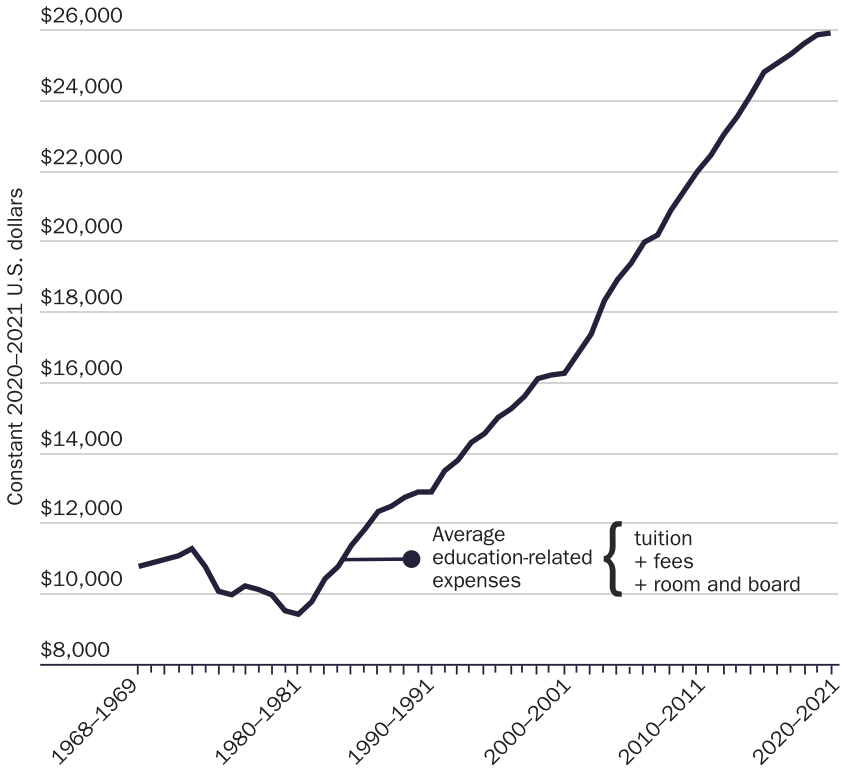
perceived technological inferiority and led to the National Defense Education Act. One of the law's components was the first federal student loan program—G.I. Bill money was essentially a grant—in which Washington gave colleges money to lend to students (as opposed to federal loans going to students and only reaching schools when students choose them).

Next, President Lyndon Johnson made college a major part of the "Great Society," with the Higher Education Act of 1965 creating new grant and loan programs. Over the next several years, such programs were expanded, including creation of Pell Grants in 1972 and Sallie Mae, a government-sponsored enterprise that provided funds to lenders at low interest rates. Creation of state guarantee agencies, intended to cover all principal and interest on defaulted loans for lenders, was also encouraged by the federal government, which in the Higher

Education Act Amendments of 1976 said that it would cover any of those agencies' losses.[4] Through the early 1980s, the government repeatedly expanded aid, including creating non-means-tested Parent Loan for Undergraduate Student (PLUS) loans and extending loans to students who were financially independent of their parents. In 2006, the federal government created PLUS loans for graduate students that the students themselves could take out.

Concurrent with the establishment of federal subsidy infusions, the inflation-adjusted cost of tuition, fees, and room and board began to skyrocket, from $9,209 in 1980–1981 to $25,281 in 2019–2020, as Figure 2 shows.

FIGURE 2 As federal subsidies for higher education have increased, education-related expenses for undergraduates have skyrocketed



Source: "Table 330.10: Average Undergraduate Tuition, Fees, Room, and Board Rates Charged for Full-Time Students in Degree-Granting Postsecondary Institutions, by Level and Control of Institution: Selected Years, 1963–64 through 2020–21," Digest of Education Statistics, National Center for Education Statistics, U.S. Department of Education, 2022.

Aid and prices are clearly connected. For starters, basic economics says that more money chasing the same level of goods or services—in this case college seats—leads to inflation, but that is just part of the explanation for higher education's *hyper*inflation. Another driver is that third-party (read: taxpayer) money enables customers to demand more from providers, including increased entertainment, such as recreation programs, concerts, and waterparks; better food; and more comfortable accommodations.[5] Third-party payment has also rendered students less sensitive to resulting price increases. Prospective students' price insensitivity enables college employees to demand higher salaries, lower workloads, nicer offices, and other rewards. Thus, Lucca et al. (2019) found that a one-dollar increase in federal subsidized and unsubsidized loan maximums leads to college tuition price increases of about 60 and 20 cents, respectively. [6]

Unfortunately, President Biden's executive action on student debt announced in August 2022 would likely put further upward pressure on prices. Under the plan, the president would unilaterally cancel $10,000 to $20,000 (the higher amount is for borrowers who also had Pell Grants) of federal student loan debt for anyone making less than $125,000 individually or $250,000 for a household and would make income-driven repayment options much more generous for borrowers, including by reducing the share of income that determines borrowers' monthly payments before eventually getting their remaining balances forgiven. Both actions, if ultimately implemented, would decrease borrowers' sensitivity to tuition increases, essentially telling colleges to raise prices further and students to worry less about paying because the U.S. taxpayer will pick up the (now even larger) tab.[7]

Perhaps such inflation would be tolerable if it translated into proportionately greater human capital, but the data do not indicate that this is happening. Literacy assessments, for example, indicate *declining* human capital per degree. The National Assessment of Adult Literacy (NAAL), administered in 1992 and 2003, tested adults' ability to comprehend prose such as newspaper articles, documents such as tax forms, and mathematical reasoning.[8] From the first to the second administration of the test, the share of adults who topped out schooling with a bachelor's degree and were proficient prose and document readers dropped from 40 to 31 percent and 37 to 25 percent, respectively. For quantitative literacy, the share was unchanged. Advanced degree holders dropped from 51 to 41 percent prose proficient, 45 to 31 percent document proficient, and 39 to 36 percent quantitative proficient reasoning, although the last change was not statistically significant.

The Program for the International Assessment of Adult Competencies, administered in 2012/14 and 2017, is not directly comparable to NAAL, but it does identify literacy levels, with level 3 and above considered "proficient." For households with members aged 16 to 65 years old, in the 2012/14 administration, 68 percent of test takers with more than a high school education scored in the third literacy level or above. In 2017, only 64 percent did.[9] In numeracy, the drop was from 57 to 53 percent. Given such results, why the continued pressure to

increase college enrollment and potentially burden students and their parents with a high-dollar, low-value degree?

Among several reasons, a diploma is increasingly needed to get hired even when job responsibilities have not markedly changed. In 2017, researchers with the Harvard Business School compared more than 26 million want ads and current occupants in middle-skill jobs. It revealed significant credential inflation.[10] The most striking instance was supervisors of production workers, with 67 percent of job postings calling for a bachelor's degree but only 16 percent of current occupants possessing one. Other yawning gaps were 47 percentage points for executive secretaries and executive administrative assistants and 44 points for supervisors of construction trade and extraction workers.

Do employers see degreed workers as superior? In many ways, no. Harvard Business School data show that employers less often judge workers without degrees but with experience as likely to need upfront training to reach full productivity, to need supervisor oversight, to be absent, and to turnover. Employers do, though, tend to believe that someone with a degree will end up being more productive and reach that level more quickly.

Of course, the cost of attaining a degree is usually not borne by an employer, so there is little cost to requiring one. And pickings are easy, with a glut of bachelor's degrees. Data from the Federal Reserve Bank of New York show that roughly a third of all four-year degree holders are in jobs that do not require their credential. And this is not just for new graduates, indicating that many degree holders are in career underemployment.[11]

Governments also spur demand and credential inflation by increasingly requiring their employees to have degrees. This includes public schools that employ millions of teachers. As of 1937, only five states required teachers to have four years of college for initial certification, while six required only high school graduation, and eight had no specific educational requirement. By 1986, the Carnegie Task Force on Teaching and the Holmes Group—an assemblage of education deans at leading research universities—was proposing that all teachers have an undergraduate education in specific subjects and master's degrees in education to enter the profession.[12]

Today, an advanced degree is not typically required to become a teacher, but teachers ordinarily rise on district salary scales by possessing one, and some states require that teachers obtain master's degrees within a certain number of years of licensure—*despite* research typically finding no positive impact on student achievement.[13]

States further fuel demand for college degrees by making them a condition for licensure in many private-sector jobs.[14]As discussed in the Occupational Licensing chapter, the last few decades have experienced major increases in the number of occupations and share of the American workforce that is subject to licensing. In the 1950s, around 5 percent of workers were subject to licensing laws, which

jumped to 18 percent by the 1980s and 29 percent by the mid-2000s.[15] Many state licensing regulations today require college degrees for occupations, such as athletic trainers and auctioneers, that clearly do not need them.[16]

Even quintessential occupations needing specialized, advanced degrees and licenses to operate, such as doctors and lawyers, only started to see such requirements relatively recently. Many famous lawyers—Thomas Jefferson and Abraham Lincoln leap to mind, but more recently U.S. Supreme Court Justice Robert H. Jackson—practiced law without law degrees, largely learning independently and on the job with established attorneys.[17] Medical education slowly transformed from an apprenticeship model to an academic one, and states did not start to regulate length or content of training until the late 19th century.[18]

The federal government also restricts supply by making it difficult for innovative education providers, such as online institutions or competency-based degree programs that give credit for what students already know, to enter the higher education market.[19] For an institution to enroll students using federal aid, which is so widespread that almost all colleges must enroll such students to be competitive, it must be approved by an accreditor that is recognized by the U.S. Department of Education. Those accreditors tend to be focused on inputs and residential, four-year models, making it difficult for innovative, nontraditional options to enter the market and thrive.

Washington has also targeted the most dynamic higher education sector—for-profit schools—for extra regulatory scrutiny. For-profit institutions have typically been much quicker than traditional colleges to adapt to changing workforce needs and shape the modes, times, and places of their offerings for working adults. The sector does produce some poor outcomes, including a relatively high default rate of 11.2 percent versus 5.2 percent for borrowers who attended nonprofit private colleges and 7.0 percent for public college attendees.[20] But it also works with students with the greatest obstacles to success—for example, older ones from disadvantaged groups—and the schools do not receive the state and local subsidies of public institutions or the favored tax treatment of not-for-profit private schools that enable them to bring in substantial revenue from sources other than students.[21]

Regulatory restrictions not only deny students educational options that might be better suited to their skills, lifestyles, or interests but also insulate traditional colleges from having to compete on price, quality, or convenience.

Finally, while the postsecondary education system is primarily to blame for degree pressure and expense, the country's secondary education system also contributes to the problem. As discussed in the K–12 Education chapter, career and technical education has long been sidelined as states and districts have made college attendance the ultimate goal of public schooling, and students interested in gaining specific workforce skills have found themselves marginalized and without robust options. Providing more freedom to choose alternatives to college prep would do a lot to avoid higher education problems.

THE POLICY SOLUTIONS: REDUCE FEDERAL SUBSIDIES FOR HIGHER EDUCATION; REFORM OCCUPATIONAL LICENSING REQUIREMENTS; DECREASE REGULATORY BURDENS TO INCREASE INNOVATIVE SUPPLY; AND PROVIDE NONCOLLEGE OPTIONS FOR K–12 STUDENTS

College education is more expensive and in demand than it should be, due largely to government policies that subsidize demand and restrict supply. The right prescription for reform is to move postsecondary education closer to a free market, in which tuition prices more closely reflect a degree's value to the American worker who holds it and in which alternatives to degree programs can compete.

Foremost, the federal government must reduce student aid to release price and credential inflationary pressure. Ideally, Washington would phase out all aid programs, because any subsidy distorts demand, leading to overconsumption and price increases. It also decreases consumers' incentives to vet providers for cost and quality—a critical consideration given recent research showing the return on investment of most graduate degrees to be modest or even negative.[22] Finally, the Constitution gives the federal government only specific, enumerated powers, and authority to fund student aid is not among them.

Unfortunately, wholesale removal of federal subsidies is unlikely in the near term. Smaller reforms, however, are possible. In particular, Congress should eliminate all federal aid programs that are not means-tested and should increase the minimum academic requirements needed to obtain remaining loans or grants. Doing so would help federal subsidies target only needy students with good college completion prospects while tempering tuition inflation, unmanageable debt, and credentialism.

Federal, state, and local governments also should reduce formal education requirements for private- and public-sector workers wherever possible. As discussed in the Occupational Licensing chapter, states should eliminate many occupational licenses altogether and remove unnecessary credential requirements for those that remain. For many jobs, passage of an examination—written, practical, or both—is a better means of assessing competence than a degree. As long as a person can do a job, it should not matter how they attain the requisite knowledge and skills.

President Donald Trump moved in the right direction for federal workers in 2020, signing an executive order calling on the Office of Personnel Management to examine all federal jobs and eliminate unnecessary credential requirements.[23]

The state of Maryland recently did much the same, eliminating college degree requirements for thousands of state government jobs.[24] Other states and localities should follow suit.

Next, the federal government should stop restricting and distorting the supply of more diverse and innovative higher education services by freeing colleges from rigid accreditation requirements to enroll students who use reformed federal aid programs. Roughly along the lines laid out in the Higher Education Reform and Opportunity Act of 2019, the federal government could allow aid to be used at institutions that are accredited by states or state-recognized accreditors, including apprenticeship programs, competency-based programs, and short-term degrees.[25]

The federal government also should treat for-profit schools the same as putatively nonprofit ones, in contrast with proposed "gainful employment" regulations that clumsily differentiate between programs focused on a graduate getting a job, which are most often offered by for-profit institutions, such as medical technician training programs, and those focused more on academic subjects in typically not-for-profit institutions.[26] In reality, almost everyone who goes to college does so to improve their employment prospects. In a 2014 New America survey, 91 percent of young people either planning to go to college or recently matriculated cited "to improve my employment opportunities" as a "very important" or "important" reason for enrolling.[27] It was the top reason cited.

In general, the market should decide the success or failure of all higher education institutions—for-profit, nonprofit, online, brick-and-mortar, etc.—not regulations, subsidies, and politics.

Finally, states should redirect funding from state colleges to students or, preferably, taxpayers. And, as discussed in the K–12 Education chapter, states and localities should greatly expand options before college. Preferably, this should be done through school choice programs that enable funding to follow students to educational options, including private, of their choosing. Short of that, public schools should offer more robust career and technical education options. Preparation to enter the workforce should be possible for many people without any formal postsecondary education.

ACTION PLAN

Federal higher education policy has largely been driven by one simplistic notion: education is good, so more must be better. Moreover, much that has been done in the name of "education" does not supply in-demand skills and knowledge. Subsidies have been largely self-defeating, fueling higher prices and diploma demand.

Congress should repeal all student loan and grant programs. If it does not go that far, it should

- eliminate parent and grad PLUS loans, which are not means-tested (the former fuels indebtedness for many families that cannot afford it, while graduate students should be able to obtain private loans to study in-demand fields);
- eliminate all unsubsidized loans, which are not means-tested and are only unsubsidized in that the government charges interest while a borrower is in school and for six months after graduation;
- increase the minimum academic requirements to obtain a federal loan or grant—perhaps a 2.5 grade point average on a 4.0 scale in core classes and minimum ACT or SAT scores of 20 and 1060, the national means—which would protect potential borrowers who are academically unprepared from taking on unmanageable debt and would help cool credential inflation;
- allow remaining loans and other aid to follow students to schools with various kinds of accreditation, including by state-recognized accreditors; and
- treat all postsecondary options equally, avoiding gainful employment rules or applying them to all institutions and programs.

State and local governments should

- remove college degree requirements from public-sector job offerings for which specific college-level learning is not needed or in which competency-based assessments can be used;
- remove credential requirements from occupational licenses in which competency-based assessments can be used, or for which there is no clear college-level learning needed;
- reduce direct state and local subsidies for public colleges, either giving them to students or, ideally, reducing taxes; and
- as is discussed in more detail in the K–12 Education chapter, implement education choice programs, such as education savings accounts, and create more robust career and technical education programs in public schools.

NOTES

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