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BACKGROUNDER

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Blanket Loan Forgiveness, Loan Subsidies, and Failed Job-Training Programs Are Not the Answer to Worker Shortages and Inflation

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KEY TAKEAWAYS

Despite spending years of their lives and tens of thousands of dollars in loans to get a college degree, graduates are often ill-prepared for the workforce.

Bad policies have created a monopolistic higher education system that fails students, wastes taxpayer dollars, and exacerbates price increases and labor shortages.

Phasing out federal subsidies, allowing industry apprenticeships, and enacting work-oriented welfare would help fill today's jobs.

Education plays a critical role in developing workers' knowledge, skills, and talents—as well as in matching these with new and emerging technologies. As a key factor in determining what and how much workers produce and earn, education is a fundamental component of economic growth and of personal well-being. Poor government policies have created an inefficient and monopolistic higher education system with sky-high tuition costs and a growing skills gap, and recent policies enacted in the name of containing the COVID-19 pandemic have created an unprecedented labor shortage. The Administration's morally hazardous, regressive,[1] and inflationary student-loan-forgiveness proposal papers over—and will exacerbate—these problems.[2]

Federal taxpayers are forced to subsidize institutions of higher education through financial aid, federal research grants, federal income-tax credits, and artificially low interest rates on student loans. These subsidies added up to $119 billion in 2019, and they are a significant reason why tuition prices have quintupled in real terms since 1970 as students have accumulated over $1.7 trillion in debt.[3] These subsides are also a reason why so many jobs that used to accept applicants with a high school diploma now require a bachelor's degree or more.[4] The latter effect is called degree inflation, and it has caused many young people to spend years of their lives and tens of thousands of dollars on a bachelor's degree that often provides little return on investment.

Meanwhile, over $5 trillion in deficit-financed COVID-19 spending alongside welfare-without-work benefits has contributed to an unprecedented labor shortage, including too few total workers and an even bigger deficit of workers with the skills that employers need. This has had the positive effect of causing employers to consider dropping needless degree requirements and to invest in training their workers in special skills, which can result in more effective education at drastically lower costs.

The current environment provides a ripe opportunity for the growth of alternative educational systems that are more effective and less expensive than traditional four-year degree programs. Yet, federal subsidies continue to stand in the way, both by artificially reducing the perceived cost of higher education and by limiting more affordable and practical alternatives. There has never been a better time to phase out federal subsidies for higher education and to allow alternative, cheaper, employer-driven educational and skill-development options to be tested and to thrive.

The Unprecedented U.S. Labor Shortage

Work is fundamental to American society and human flourishing, which makes today's unprecedented labor shortage so troubling.[5] Employment should have surged in 2021. A year's worth of pent-up household savings due to COVID-19, and trillions of dollars in new federal spending enacted in the name of COVID-19 relief, massively increased the demand for goods and services. Yet the U.S. economy has 1.2 million fewer jobs today than before the pandemic, even as the population ages 16 and above has grown by 3.9 million.[6] Moreover, there has been a decline in the desired hours of work, which economists estimate has roughly doubled the magnitude of the labor force decline.[7]

Labor shortages exist across all industries and skill levels. The demographics of total employment today versus where it would have been absent the pandemic—the employment gap—show that women without children

TABLE 1

Employment Gaps by Gender, Presence of Children, and Age

DIFFERENCE BETWEEN ACTUAL EMPLOYMENT LEVELS AND COUNTERFACTUAL EMPLOYMENT TREND,* SINCE FEBRUARY 2020

Group	Employment Gap (thousands of workers)	Employment Gap (percentage)	Share of Total Employment Gap
All workers	–2,216	–1.4%	100.0%
Men	–276	–0.3%	12.4%
Women	–1,940	–2.6%	87.6%
Workers with children	–387	–0.8%	17.5%
Workers without children	–1,828	–1.7%	82.5%
Men with children under 18	–95	–0.4%	4.3%
Women with children under 18	–292	–1.2%	13.2%
Men without children under 18	–181	–0.3%	8.2%
Women without children under 18	–1,648	–3.3%	74.4%
Workers with children 6 to 17, none younger	–183	–0.6%	8.2%
Workers with children under 6	–205	–1.0%	9.2%
Men with children 6 to 17, none younger	–148	–1.0%	6.7%
Women with children 6 to 17, none younger	–35	–0.2%	1.6%
Men with children under 6	52	0.5%	–2.4%
Women with children under 6	–257	–2.6%	11.6%

* Counterfactual trend is based on a definition of steady-state employment growth from the Federal Reserve, equal to monthly growth of about 84,000 (0.053 percent).
SOURCE: Unpublished tabulations from the U.S. Bureau of Labor Statistics' Current Population Survey. Data should be interpreted with caution as they are based on small sample sizes.

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account for almost 75 percent of the current employment gap.[8] Despite media reports of parents being more affected by pandemic-related school and childcare closures, workers with children (including both men and women) have a smaller employment gap (0.8 percent) than workers without children (1.7 percent), and they make up a significantly smaller share of the overall employment gap (17.5 percent) than workers without children (82.5 percent).[9]

The tight labor market is the result of too few workers returning to the labor force, as opposed to too few jobs. With a record-high 11.4 million job openings in April 2022, there are 1.9 jobs available for every unemployed worker.[10] Nearly half (47 percent) of employers have job openings that they are unable to fill,[11] and employers are struggling with record-high quits rates as 47 million workers—nearly one in three—quit their jobs in 2021.[12] Replacing a worker typically costs between six months and nine months of that worker's salary, so replacing nearly one in three workers in a single year has significantly increased employers' costs.[13] Moreover, employers are raising compensation to attract the workers they need, with 46 percent of businesses reporting that they increased compensation in April, and another 27 percent saying they plan to increase compensation over the next three months. Since labor accounts for 60 percent of the cost of goods and services, when employers have to pay workers more to do the same thing, that translates into higher prices for consumers. Despite the fact that the median wage has increased by $3,300 over the past year, the average worker is $1,550 poorer in real terms after accounting for inflation.[14]

It is not just the quantity of labor that is lacking, but also the quality. In 46 of the past 50 months, small business owners noted labor quality as their single most important problem.[15] When employers cannot find workers with the skills they need, businesses cannot reach their full potential, which means fewer or lower-quality products and services, and lower total incomes. Since workers are a key component of the economy and education (along with technology) helps to fuel worker productivity, continued low levels of employment and inefficient education will further reduce the rate of economic growth, result in smaller real incomes and output, cause greater dependence on government social programs, require higher levels of taxation, and exacerbate America's already precarious fiscal situation. This development would translate to a lower quality of life for all Americans—and for the generations to come.

The incentive for employers to educate, or upskill, the workers they need is evident, as is the need for individuals to work to provide for themselves and their families. Yet, government policies like selective subsidies for less relevant higher education and regulations that restrict alternative education programs, such as industry-recognized apprenticeships, are suppressing educational opportunities that would benefit workers and employers alike. Moreover, government welfare-without-work programs are suppressing the supply of workers.[16]

Employers Are Resetting Degree Requirements

With inflation at a 40-year high,[17] a reversal of degree inflation—sometimes referred to as degree *deflation*—provides some much-needed relief.

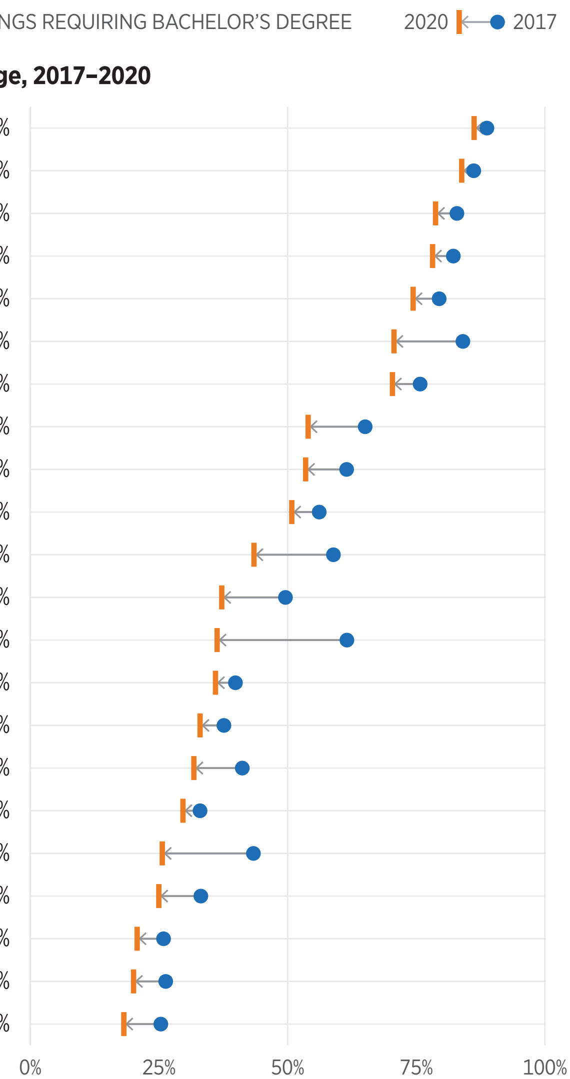
CHART 1

Jobs Less Likely to Require College Degree

From 2017 to 2020, a trend emerged in which many advertised job postings were less likely to require a bachelor's degree. Since then, the labor market has only grown tighter, likely accelerating this trend.

PERCENTAGE OF JOB POSTINGS REQUIRING BACHELOR'S DEGREE

Occupation	2017	2020	Change, 2017–2020
Compensation/Benefits Analyst	88.7%	86.2%	−2.5%
Health Care Administrator	86.2%	83.8%	−2.3%
Computer Programmer	82.9%	78.8%	−4.2%
Network/Systems Administrator	82.2%	78.2%	−4.0%
General Manager	79.5%	74.4%	−5.1%
Personal Finance Advisor	84.1%	70.7%	−13.4%
Construction Manager	75.8%	70.4%	−5.4%
Paralegal/Legal Assistant	65.1%	54.0%	−11.1%
Claims Specialist/Adjuster/Examiner	61.5%	53.5%	−8.0%
Office Manager	56.1%	50.8%	−5.3%
Loan Officer	58.9%	43.5%	−15.4%
Property/Real Estate/Community Manager	49.6%	37.2%	−12.4%
Insurance Sales Agent	61.5%	36.3%	−25.2%
Sales Supervisor	39.9%	36.0%	−3.9%
Production Supervisor	37.6%	33.0%	−4.6%
Coach	41.2%	31.8%	−9.4%
Human Resources Assistant	33.0%	29.7%	−3.3%
Real Estate Agent/Broker	43.4%	25.6%	−17.7%
Maintenance/Service Supervisor	33.1%	25.0%	−8.2%
Bill and Account Collector	25.9%	20.8%	−5.1%
Retail Store Manager/Supervisor	26.3%	20.1%	−6.3%
Preschool/Childcare Teacher	25.4%	18.2%	−7.2%



SOURCE: "The Emerging Degree Reset," The Burning Glass Institute, February 9, 2022, Table 1 and Appendix Table 1, https://www.burningglassinstitute.org/research/the-emerging-degree-reset (accessed April 8, 2022).

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Across the U.S., companies—including some big names like Google, Apple, IBM, Aon, Houghton Mifflin Harcourt, and Bank of America—have been eliminating the requirement of a four-year degree for many positions. According to a recent report from the Burning Glass Institute, degree deflation started in 2017 and accelerated during the COVID-19 pandemic.[18] The report found that substantial degree deflation occurred in 46 percent of mid-skill occupations and 31 percent of high-skill occupations. The largest declines were observed in mid-skill jobs and in industries such as finance, business management, engineering, and health care. From 2017 to 2020, the proportion of job postings requiring a bachelor's degree for paralegal positions decreased from 65 percent to 54 percent. Job postings for insurance sales agents dropped from 62 percent to 36 percent.

As Siemens USA CEO Barbara Humpton explained in 2019, "All too often, job requisitions will say they require a four-year degree, when in fact there's nothing about the job that truly requires a four-year degree—it merely helped our hiring managers sort of weed through the crowd and get a smaller qualified candidate group."[19] The fact that almost half of employers have unfilled job openings and 93 percent of businesses that are hiring or trying to hire say they have few or no qualified applicants means that employers are being forced to reconsider whether degree requirements are actually necessary.[20]

The public sector has not been immune to the labor shortage. With residents facing long waiting lines at the Department of Motor Vehicles, delays in accessing social benefits, and understaffing at the Chief Medical Examiner's office meaning delayed autopsies, Maryland Governor Larry Hogan announced that he is eliminating the four-year degree requirement for thousands of state jobs.[21] Hogan's "first-in-the-nation" workforce development initiative will allow individuals who are Skilled Through Alternative Routes (STARs), to substitute alternative training and education for previous degree requirements.[22] The state estimates that this will open the door for nearly half of Maryland's workforce to qualify for the majority of the state's 38,000 public-employee positions.[23]

Employer-Driven Education

Prior to the pandemic, employers were already investing in their labor force in alternative ways. In addition to providing an estimated $90 billion per year for education and training, some employers have started programs to educate workers from the ground up, often replacing the need for higher education.

Employers are doing this because, as Apple CEO Tim Cook has noted, colleges typically do not teach the skills that businesses need most.[24]

Universities frequently fail to innovate, are often staffed by professors who lack real-world business experience, and operate almost exclusively in classroom settings. Employers, on the other hand, are typically more adept at providing timely and practical education to meet their needs. For example, tech companies are creating their own certification programs and curricula based on skills not degrees, such as Google Career Certificates, Amazon Technical Academy, and IBM's multiple training programs.[25]

Investment in workers is not limited to technical roles. Bank of America launched a Pathways Program in 2018,[26] and Mazda tackled a skills gap by educating thousands of new workers at its Alabama manufacturing plant.[27] An author at IBM who emphasizes the need to expand talent and create new ways for people to enter the workforce argues, "The key is to shift focus from credentials to capabilities, and make acquiring those skills more accessible than ever, so that more people can be prepared for success in new collar jobs where having the right skills matters more than having a traditional degree."[28]

Employer-driven education can be a win-win. Instead of sacrificing years of earnings potential and paying tens of thousands of dollars, on-the-job education programs provide opportunities for workers to get a free education (sometimes even being paid in the process as apprentices) and opportunities for employers to attract and retain workers with the skills they need. Ending federal subsidies for higher education would save taxpayers money and incentivize young people to launch successful careers through lower-cost, more effective employer-driven education.

Government Monopoly on Apprenticeships Stifles Innovation and Opportunity

For roughly 80 years, the government's Registered Apprenticeship Program (RAP) model—which requires conforming to government standards and includes federal funding, tax credits, and other federal resources—has dominated apprenticeship programs in the U.S. While this model has been successful in some occupations, it has failed to meet the changing workforce needs as it is concentrated in only a few industries. A report by Isabel Soto at the American Action Forum notes that while the health care sector accounts for six of ten of the most rapidly growing occupations, health care apprenticeships only make up 2.5 percent of RAPs.[29]

To help to expand apprenticeship programs and better align them with industry needs, the Trump Administration created a new Industry Recognized Apprenticeship Program (IRAP) model. IRAPs created an easier process for developing apprenticeship programs, built on more employer involvement, with a goal of reaching more workers in high-demand industries. Even without access to the federal funding that is available to traditional RAPs, more than 130 IRAPs were created (along with 27 Standards Recognition Entities to recognize and oversee IRAPs). Most IRAPs were focused on developing workers for the nursing profession, which faced shortages that have since been exacerbated by the pandemic.[30]

Yet, the Biden Administration rescinded the Trump Administration's executive order that expanded apprenticeship programs and directed the Department of Labor to reverse "industry recognized apprenticeship programs (IRAPs) which threaten to undermine registered apprenticeship programs."[31] But organizations across the political spectrum have noted the failure of registered apprenticeship programs to meet workforce demands, particularly due to their overly bureaucratic and burdensome nature. A 2021 Brookings Institution report noted that registered apprenticeships are concentrated in legacy (and historically male) trades and fail to meet growing demands in the health care and technology industries. The report noted the overly onerous process for employers to establish apprenticeship programs, concluding that "[a] robust apprenticeship system has the potential to increase earnings and reduce occupational segregation in the labor market."[32] Moreover, a 2017 Harvard study estimated that the number of occupations commonly filled through apprenticeships could nearly triple (from 27 to 74), that the number of job openings filled through apprenticeships could expand eight-fold (to 3.2 million), and that the occupations ripe for apprenticeship expansion could offer 20 percent higher wages than traditional apprenticeship occupations.[33]

Expanding apprenticeship programs by ending the federal monopoly on Registered Apprenticeships and making it easier for employers to establish them could help to reduce the labor shortage, shrink the skills gap, increase workers' earnings, and reduce educational costs. The Training America's Workforce Act, introduced in March 2022 by Senators John Thune (R–SD) and Tim Scott (R–SC), would end the government monopoly on Registered Apprenticeships by directing the U.S. Department of Labor (DOL) to revive IRAPs so that DOL-approved entities, such as trade associations and educational institutions, could recognize and oversee apprenticeship programs.[34]

Federal Subsidies for Higher Education Increase Costs and Crowd Out More Effective Education Alternatives

The main reason students spend time and money earning a bachelor's degree is to compete in the job market with other people who have bachelor's degrees. While some learning occurs, higher education is mostly a signaling mechanism that is extremely expensive for taxpayers and students.[35] The learning that does occur tends to be highly ideological, not in the form of directly applicable job skills. It has also become evident during the pandemic that universities do not prioritize the education and mental well-being of their students.[36]

This was not always the case, and federal policies are partly to blame. Between 1990 and 2020, in-state tuition and fees at public four-year universities nearly tripled in real terms.[37] Over the same period, federal spending on student loans rose 328 percent. A Federal Reserve Bank of New York study found that each dollar in federally subsidized loans that colleges receive leads to about a 60-cent increase in tuition.[38] Higher tuition has not come with increased value, however as the spending has gone toward the higher education administrative state, not actual education.[39] Instructional staff now account for only 40 percent of full-time employees at non-doctoral colleges, and a mere 28 percent at doctoral universities.[40]

Recent research by Preston Cooper of the Foundation for Research on Equal Opportunity has estimated that 37 percent of undergraduate, and over 40 percent of master's, programs have a negative return on investment when accounting for all education-related spending by universities as well as probability of completion.[41] The stark reality is that tuition and other charges—which are themselves paid in part with grants and subsidies—only account for 40 percent of the cost of public universities.[42] The Urban Institute estimates that, in addition to what students and families paid themselves, taxpayers spent $29,689 per full-time student in a two-year or four-year program in 2019, with expenditures ranging from a high of $51,338 per full-time student in Alaska to a low of $23,208 in Nevada.[43]

A primary goal of government subsidies for higher education is to increase college education among lower-income Americans. Yet the massive rise in federal higher education subsidies appears to have done far more to help high-income students. For starters, higher education subsidies are not available to students who have not completed high school. A study by Martha Bailey and Susan Dynarski finds that this explains half of the inequality in college entry, because "[i]nterventions that operate mainly on the college-entry margin—such as scholarships, college outreach campaigns, and mentoring—can only alter the college-entry decisions of those who are able to respond."[44]

Moreover, the authors noted that, "Even if rates of college entry were miraculously equalized across income groups, existing differences in persistence would still produce large gaps in college completion."[45] The share of low-income students entering but not completing college increased from 14 percent in the early 1980s to 20 percent in the early 2000s.[46] Attending but not completing college can be incredibly costly as students pay for, or take out loans, for school, and do not reap the higher-income rewards of having completed college. In addition to driving up tuition prices, federal subsidies have also had the unintended effect of reducing students' on-time graduation rates, by enabling students to take a more leisurely route through the academy. Fewer than half of students earn a degree in the expected four years, and only three in five earn a degree in six years.[47] Moreover, as discussed, degrees earned often do not align with workforce needs. These shortcomings are inherent to the higher education system, where universities get paid not based on how well students perform or on finding a job in their field of study, but based on how long students remain in school. Universities do not have a direct vested interest in preparing their students to graduate within four years, nor do they have a stake in their future success.

Performance-based educational programs like the Flatiron School[48] address these shortcomings. The Flatiron School and other bootcamp-style programs are teaching a growing number of people, many of whom have no technical background, the skills they need to succeed in high-demand jobs, such as data scientist, software engineer, and cybersecurity engineer, in only 15 weeks.[49] Many of these programs offer the option of an income-share agreement (ISA) where the programs have a direct financial stake in student achievement by allowing students to defer paying tuition up front and instead pay a small percentage of their post-graduation salary for a fixed amount of time upon graduation.[50] Under ISAs, Flatiron and its competitors only get paid if their students land a good job upon graduation, and they earn more when their students earn more.[51] These programs have a direct incentive to teach students skills that are highly valued in the labor market. These programs also act as an incentive for students to enter more productive occupations than the alternative, where the government provides subsidized loans equal to tens of thousands of dollars per university student whether he or she studies engineering, art history, or gender studies.

Federal subsidies for higher education have had the opposite of their intended effect, causing costs to rise, and crowding out more effective and affordable alternatives. Phasing out hundreds of billions of dollars per year in taxpayer subsidies to higher education programs would help to expand performance-based education programs that could provide greater value to students at lower cost, while making space for a restoration of the private lending market.

Federal Job-Training Programs Have Been Failures

The federal government spends billions of dollars each year on job-training programs that fail to provide workers with education and experience that helps them to find and retain jobs. Even a gold-standard evaluation of the federal government's Workforce Investment Act, which is supposed to provide training for in-demand services, found that only 32 percent of participants found occupations in their area of training and the majority—57 percent—did not believe that their training helped them to find employment.[52]

Moreover, individuals receiving the full workforce training were less likely to obtain health insurance or pension benefits, their households earned several thousand dollars less, and they were more likely to be on food stamps than participants who received minimal services. The National Job Corps Study (an evaluation of the federal government's primary youth job-training program) found that a federal taxpayer investment of $25,000 per Job Corps participant resulted in participants being less likely to earn a high school diploma, no more likely to attend or complete college, and earning only $22 more per week.[53]

It is not surprising that federal job-training programs are out of touch with the needs of employers in high-demand occupations, because politicians and bureaucrats can never know businesses' needs better than employers themselves.

Policy Recommendations for Congress

To allow cheaper, employer-driven skill-development and education options to thrive, Congress should:

- **Phase out all existing federal student-loan and student aid programs.** Federal subsidies for higher education inflate total costs, drive up tuition, suppress more effective education alternatives, and have failed to expand lower-income Americans' share of college graduates. The U.S. Department of Education should stop adding gasoline to the fire and allow private financial institutions to pick up any gap in new loans and financial aid. Congress should immediately prohibit student-loan forgiveness, which would be inflationary, morally hazardous, regressive, and tip the scales away from more effective education alternatives.

- **Expand apprenticeship programs by ending the government monopoly on them.** Policymakers should allow apprenticeships to expand outside the federal government's RAP, including making it easier for employers to establish apprenticeship programs—as accomplished by the Training America's Workforce Act—and basing any federal funding of apprenticeships on the outcomes they produce.

- **End federal job-training programs.** Federal job-training programs have a poor track record. The private sector provides more effective training, and if government programs are to exist, state and local governments are better equipped to meet their workforce needs than is the federal government. Now, amidst an unprecedentedly strong labor market for workers, is the ideal time for Congress to end federal job-training programs, and short of that, to fund only those programs that have proven outcomes of success.[54]

Conclusion

As Americans experience the consequences of four-decade-high inflation and an unprecedented labor shortage, reduced degree requirements and alternative education opportunities can provide relief by reducing costs, providing more effective and relevant education, and meeting employers' demands more quickly and more suitably. The unprecedentedly tight labor market—with employers reducing degree requirements and investing in employer-driven education—makes this the ideal time to phase out federal subsidies for higher education and to end ineffective federal job-training programs. Simultaneously, policymakers need to expand alternative education opportunities (most notably by ending the government monopoly on apprenticeship programs) and establish work-oriented welfare policies. By eliminating government distortions in education and in labor supply, more people would be able to increase their education and skills at lower costs, more employers could hire workers with the skills they need, and current and future taxpayers could keep more of their earnings.

A dynamic economy is driven by innovation, exploration, and free people making decisions that are in their best interests. The federal government should not use taxpayers' money to prioritize one particular type of education over any other, nor should federal welfare programs discourage people from working and earning higher incomes. Instead, lawmakers should allow alternative, more effective, and less expensive educational options and re-orient welfare programs to promote work. The result will be lower costs, more effective education, higher incomes, and a more vibrant economy.

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