



# Using the Right Incentives to Link Education and Employment: Market-Based Proposals to Refocus the Higher Education Act and Higher Education Finance

By Michael Brickman

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## Key Points

- The higher education system does not work well for taxpayers, students, or higher education institutions.
- This report presents four ideas conservatives could offer for the next reauthorization of the Higher Education Act to ensure student aid supports those who need it the most and directs them to useful, skills-based educational pathways that will prepare them to contribute positively to society.
- There is a burgeoning opportunity to realign the nation's higher education laws with Americans' desire to get the education they need for a brighter future. To do this, policy-makers should incentivize outcomes and recognize the blurry line between "higher education" and "workforce development."

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The higher education system does not work well for taxpayers, students, or higher education institutions. Evidence of this is familiar to many but worth outlining. Outstanding student debt in the United States totals \$1.7 trillion, which is more than credit card debt or auto loans.<sup>1</sup> Much of this debt will unlikely be collected, a worrying sign for current and future borrowers. A recent Brookings Institution report projected 38.2 percent of borrowers who entered the Federal Student Aid program in 2004 will default by 2023.<sup>2</sup> The Department of Education found that taxpayers could be responsible for paying off \$500 billion even before any potential debt forgiveness by the Joe Biden administration.<sup>3</sup> This is over 12 times more than the Congressional Budget Office projected and

nearly as much as the mortgage losses during the 2008 financial crisis.<sup>4</sup>

Once upon a time, student loans were expected to be such a good deal for taxpayers that their projected revenues were used to offset costs associated with the Affordable Care Act and increasing the size of Pell Grants. Less than a decade ago, the federal government projected it would net 20 cents for every dollar it lent to students; today it projects a loss.<sup>5</sup> Yet despite today's increasingly dire picture for taxpayers, calls for student loan forgiveness have never been louder. All the while, college is effectively already half free for students in income-based repayment plans, who repay only 51 percent of their loans on average.<sup>6</sup>

The immediate financial toll on students and taxpayers is only part of the picture. As the cost of

college rises, employers continue to question traditional colleges and universities' ability to prepare students for work.<sup>7</sup> Somewhat surprisingly, even higher education leaders are growing less confident on that score; Gallup registered a 15-point drop between 2014 and 2020 in provosts' views of how they prepare their students for work.<sup>8</sup>

Most importantly, students are starting to question the "college for all" mentality. A survey of 3,000 Gen Z students found that only one in four thought the traditional college path was the only way to a good job.<sup>9</sup> A survey of adults found that many are unhappy with the education they received; more than half would change their degree, institution, or field of study.<sup>10</sup>

Both conservatives and progressives believe more "accountability" is the answer. However, many on each side seem to see accountability as merely a weapon to be wielded against so-called "bad actors." For conservatives, that means elite, well-resourced, and overtly leftist institutions. For progressives, that means anything or anyone earning a profit. However, an offensive launched in either direction will unlikely create the type of accountability that drives continuous improvement or benefits students and their career prospects.

Rather than resorting to weaponizing higher education policy, what follows are four ideas conservatives could offer for the next reauthorization of the Higher Education Act (HEA). These ideas would ensure student aid, the rules surrounding it, and the links between education and employment are aligned as much as possible to support those who need it the most and direct these students to useful, skills-based educational pathways that will prepare them to contribute positively to society.

## **Reducing Credential Inflation and Promoting Skills-Based Hiring**

Even if some education leaders do not believe a primary goal of postsecondary education is preparing graduates for jobs, students certainly do. A vast survey conducted by Strada Education Network and Gallup found that career aspirations were "the main reason most people choose higher education, more than double the percentage representing the next most prevalent motivation."<sup>11</sup>

Unfortunately, due to decades of credential inflation, more education is required for the same job at the same real wages.<sup>12</sup> If students' goals for higher education is earning sufficient skills to meet minimum job requirements, then policymakers must focus on helping students attain those skills and reducing minimum educational requirements as much as possible without sacrificing job performance. At the state level, policymakers should focus first on occupational licensure reform, supporting employer efforts to find and hire people based on skills rather than degrees, and encouraging students to consider career paths that do not require years of expensive schooling.

Federal policies also unnecessarily drive up the minimum qualifications for jobs by allowing a cozy relationship between the accreditors of specific academic programs and related trade associations or other professional organizations. These organizations often are directly affiliated and may share office space, staff, and policy priorities. These groups are required by law to be "separate and independent," but the provision is flimsy, with loopholes and a grandfather clause applying to accreditors recognized continuously since 1991.<sup>13</sup> This HEA provision should be tightened substantially to stop self-interested groups from furthering their own competitive advantage or professional prestige by making it harder for others to follow in their footsteps.

As the nation's largest employer, the federal government can also lead by example. Executive Order 13932 removes requirements and preferences for college degrees in federal hiring and shifts the focus to where it belongs: on whether a job applicant has the necessary skills and competencies to succeed.<sup>14</sup> Although signed by Biden's predecessor, it aligns well with the Biden administration's goal of promoting diversity, equity, and inclusion and was prioritized by the National Association of Manufacturers as a policy that should be continued.<sup>15</sup> Early signs from the Biden administration indicate that it may do just that.<sup>16</sup>

Racial achievement gaps in college completion will not be solved overnight; in the meantime, focusing on skills rather than degrees in hiring will promote inclusivity.<sup>17</sup> A shift by the Equal Employment Opportunity Commission to treat college degree requirements like any other employer

screening tool, as Frederick Hess and J. Grant Addison have suggested, would tremendously affect on ensuring jobs are filled by the most qualified person, not simply the person with the most college credits.<sup>18</sup>

Congress must also stop incentivizing irresponsible borrowing for graduate programs of questionable value. A borrower seeking a federal graduate school loan can receive unlimited funds to attend school with no credit check and then enter a generous forgiveness program. Limiting this torrent of funding and substantially curtailing the Graduate PLUS program may, more than any other step, slow credential inflation. Graduate-level credits and degrees that states and school districts incentivize or require elementary and secondary school teachers to earn also drive potentially suspect graduate enrollment, despite research showing minimal benefits to students.<sup>19</sup>

Finally, we should ensure the Federal Work-Study program supports work relevant to students' goals and not just subsidized labor for university cafeterias and libraries. (Less than one-tenth of 1 percent of funds support work at private, for-profit employers.) An experiment aimed at this goal was launched under Education Secretary Betsy DeVos and attracted interest from nearly 200 colleges and universities.<sup>20</sup> It should be continued, and, if successful, its flexibility should be incorporated into the HEA for all colleges and universities.

## **Protecting Students and Taxpayers When Institutions Close Suddenly**

While income share agreements (ISAs) with a risk-sharing component, discussed in a previous report, would provide significant “skin in the game” accountability to protect students and taxpayers, they are insufficient protection if an institution closes, especially if it does so suddenly.<sup>21</sup> Recent analyses, even before the COVID-19 pandemic, predicted that hundreds of institutions could be at serious risk of closure.<sup>22</sup> Democrats and Republicans agree that federal oversight of an institution's financial stability and capacity to deliver its programs is appropriate, particularly if there is a

risk that an institution could close suddenly, leaving few assets left to refund students or help them complete their education.

The data that the Department of Education relies on for such oversight are often out-of-date, and internal processes can be opaque to outsiders. That means that, as with accreditors, the department steps in to clean up the mess just as often as it prevents it from happening. While civil servants are generally committed to fairness, departmental reviews of institutions against various oversight requirements can sometimes take years, paralyzing institutions and allowing for politically driven meddling by political appointees against disfavored schools.

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A better approach would rely on a simple, fair, and market-based mechanism to prevent sudden closures from harming students or taxpayers. Quite simply, institutions should buy insurance. If an institution can prove that its closure would not harm students, much of the HEA's cumbersome, extremely costly (to both taxpayers and institutions), and too little, too late financial responsibility oversight apparatus could be set aside. The department already recognizes that some oversight on matters of financial responsibility is unnecessary if taxpayers are protected, so it waives some requirements if an institution is “backed by the full faith and credit of a State” or participates in a state “tuition recovery fund.”<sup>23</sup> (The latter was designed only to accommodate California.)

The department and Congress should apply this approach to all institutions willing to take steps necessary to protect students if the institution should close, regardless of whether they are backed by state taxpayers. In lieu of complex accountability regimes and financial metrics, the HEA could be rewritten to simply require verification that a trusted third-party insurer has an active policy with sufficient coverage in place. Major compo-

nents of the HEA's financial responsibility regulations, and possibly others related to administrative capability, or the requirements covered in each institution's program participation agreement with the department could be significantly reduced or eliminated. This would reduce the federal government's footprint in these areas, limit using oversight to achieve political goals, and lower institutions' compliance costs, which are passed on to students and taxpayers anyway.

## **An Auction-Driven Alternative to Short-Term Pell Grants**

While there is still a need to reduce overborrowing for longer, more expensive programs, borrowing is best avoided for shorter-term, lower-cost programs that could be paid out of pocket, with Pell Grants, or with other grant aid. A major issue with Federal Student Aid programs is that many such workforce-relevant programs are not eligible for aid.

Pell Grants can be used only for degree programs or for certificate programs that are 600 clock hours or 16 semester hours long during at least 15 weeks of instruction.<sup>24</sup> Loans, on the other hand, may be used for programs 300–600 clock hours long offered over at least 10 weeks of instruction. These shorter, loan-only programs must operate without loans for their first year in operation and achieve program completion and job placement rates of at least 70 percent before they become eligible for aid.

Bipartisan proposals, including the Jumpstart Our Businesses by Supporting Students Act of 2019 (JOBS Act) authored by Sens. Tim Kaine (D-VA) and Rob Portman (R-OH), would allow Pell Grants to pay for job training programs 150–600 clock hours long and offered over eight to 15 weeks.<sup>25</sup> This proposal to enable so-called short-term Pell is a commonsense approach that would make numerous programs with workforce relevance eligible for Pell Grants, allowing lower-income students to avoid some or all borrowing. This includes some not-for-credit programs, especially at community colleges, which are easier to align with workforce needs because they do not require the same level of faculty approval.

There are certainly numerous useful programs under 600 clock hours. In many states, programs under 600 hours are sufficient to become a licensed

massage therapist or start in a health profession or trade. However, interestingly enough, numerous state-licensed occupations happen to require exactly 600 hours.<sup>26</sup> Another unexpected potential benefit of short-term Pell is that since these requirements are presumably tied to federal aid rules, a change in those rules could reduce occupational barriers to entry to as few as 150 hours.

Despite these benefits, current proposals to make shorter programs eligible for Pell Grants might not satisfy those worried about the lack of workforce relevance in higher education curricula. Although some programs with workforce relevance are excluded from eligibility simply because of their length, advocates for short-term Pell may also decry the lack of workforce relevance in many programs already eligible for federal financial aid. The JOBS Act maintains the federal regulations and red tape and asks existing college accreditors to ensure that eligible providers “meet the hiring requirements of potential employers.”<sup>27</sup> Unfortunately, there is no evidence that accreditors have the desire or expertise necessary to do this.

Employment outcomes need not be higher education's only goal. However, these short-term vocational programs are, more than any others, singularly focused on preparing a cohort of students for specific jobs to meet current local workforce needs. Under the JOBS Act, deciding whether training providers deliver what employers need requires two federal agencies, accreditors, state workforce boards, and hundreds of pages of regulations. What if we just asked employers?

The Kansas Workforce Aligned with Industry Demand program is led by the state's Department of Commerce.<sup>28</sup> Employers looking for qualified workers define the knowledge, skills, and abilities they need, and then the state facilitates a request for proposal (RFP) in which multiple training providers (public and nonpublic) can bid to deliver the training. Employers help select job candidates before training begins and may give their selected candidates job offers contingent on completing the agreed-on training. A similar nationwide approach could scale quickly, reduce overhead, and put more trained workers into more open positions.

While the HEA would fund this program (ideally by also rolling in workforce training programs at the Departments of Education and Labor),

states should handle most other functions including determining and enforcing training provider eligibility standards, administering the auction or RFP process, and providing other support services to connect students and jobs. New technologies such as blockchains that use decentralized, secure data and smart contracts, which automatically execute payments and other tasks, could further reduce administrative overhead. Funding should support not only traditional coursework but also competency assessments, apprenticeships, and student support services. Importantly, a significant portion of funding should be withheld until a student completes the program.

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If students are successfully prepared for jobs, few other administrative and accountability provisions are needed.

If students are successfully prepared for jobs, few other administrative and accountability provisions are needed, saving money for students and taxpayers alike and reducing headaches for would-be training providers and employers. However, states and training providers should be required to publicly report outcome data, those prior outcomes should be considered alongside cost in future auctions or RFPs, and employers should be required to reimburse the state (and possibly the student) if they do not follow through on hiring workers. Employers that repeatedly pull a bait and switch could be barred from the program.

## Full-Ride Pell Grants

The billions spent each year on federal higher education grant competitions have long been a target for conservatives looking to reduce costs and the layers of bureaucracy between the citizens who pay for these programs and those who benefit from them. Studies have shown these programs, generally aimed at college attendance and completion for low-income students, are of limited effectiveness, so cutting them is one option.<sup>29</sup> However, if

politics were to prescribe cost neutrality, the federal government could do something novel to support the most qualified students.

In fall 2021, a Pell Grant of \$6,495 is the maximum that students with the greatest need have to defray the full cost of attendance before they must begin borrowing.<sup>30</sup> Although risk-sharing ISAs would benefit students more than loans would, policymakers can do more by targeting the highest-potential low-income students. Many Democrats propose simply paying for all costs for all students. However, these incredibly expensive proposals (and the current system) do not prioritize low-income students who are very likely to excel but very unlikely to be able to pay their way.

Conservatives do not believe student aid programs should be an entitlement, but rather a way support the neediest, most academically qualified students looking for a leg up. By repurposing these too-often ineffective competitive grant funds, Congress could give students with the most academic potential a full-ride scholarship. States would be responsible for administering funding and deciding which low-income students are most academically qualified. Ideally, this would include low-income students with elite SAT scores and grades and those with high potential in the arts and other valuable pursuits.

The HEA would offer base funding, and states would provide a match necessary to bring the total full-ride Pell Grant to the full cost of attendance at each state's public four-year colleges. This would incentivize states to control costs and prevent them from setting student eligibility standards low, spreading the money around too thin, and providing something far short of a full ride.

Students could attend more expensive private or out-of-state schools, too, but would need to find other sources of funding to make up the difference. These students would likely be sought after by elite institutions that may choose to offer tuition discounts, scholarships, and other incentives to competitive applicants. Each year, the nation's best athletes are discovered, selected, and given a full ride to college no matter their family background, their financial means, or whether they live in a big city or remote town. It only makes sense that we do the same for our nation's best and brightest who need a leg up.

## Conclusion

The HEA was last meaningfully examined by Congress in 2008, and even those changes did not constitute a full reauthorization. The current partisan makeup of Congress might mean substantial changes are still years away. Yet opportunity is building to realign the nation's higher education laws with Americans' desires to get the education they need for a brighter future. To do this, funding must be refocused on the people and programs that need it most.

Policymakers should incentivize outcomes—especially by encouraging institutions to keep education affordable and students to pursue academic programs that will benefit them in later life—rather than relying on subsidies, mandates, and price controls as their only tools. They should also recognize the blurring lines between “higher education” and “workforce development” and work to integrate these programs and funding streams wherever possible to make it easier for students to choose their own paths.

## About the Author

**Michael Brickman** is a national public policy leader who specializes in developing cutting-edge innovations in education reform, skills-based hiring, and the future of work. He advises companies, nonprofits, and investors on the innovations that are changing the way we work and learn.

## Notes

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