Statement before the House Committee on Appropriations
Subcommittee on Labor, Health and Human Services, Education, and Related Agencies
On Career-Ready Students: Innovations from Community Colleges and Private Industry

Promising Pathways

Expanding High-Value Postsecondary Education Options

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Good morning, Chairman Aderholt, Ranking Member DeLauro, and distinguished members of the Subcommittee. Thank you for the opportunity to testify today on the federal role in postsecondary education, and the value of different educational pathways beyond the four-year college degree.

My name is Preston Cooper, and I am a senior fellow focusing on the economics of higher education at the American Enterprise Institute (AEI), a nonprofit, nonpartisan public policy research organization based here in Washington, DC. My comments today are my own and do not reflect the views of AEI, which does not take institutional positions.

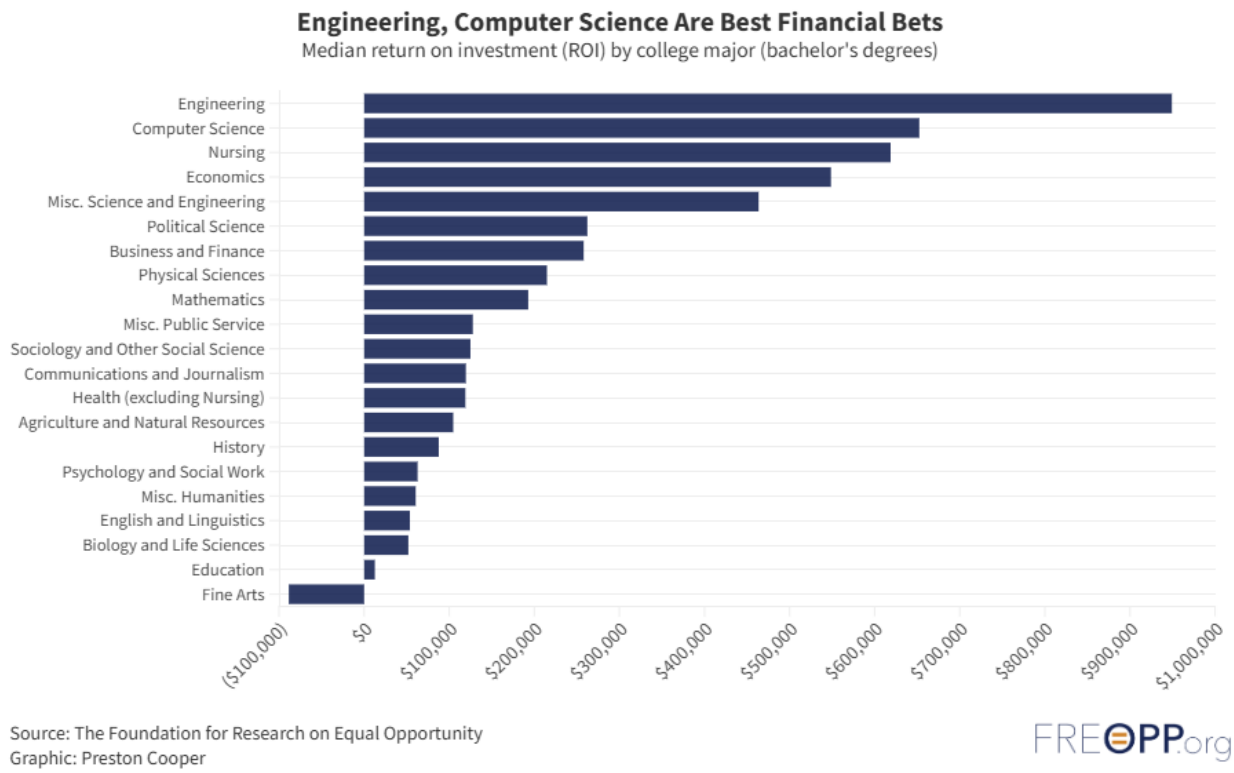
What is the value of a college degree?

For decades, students and policymakers alike have viewed the four-year college degree as a "golden ticket" to the middle class. But in recent years, the consensus that higher education is a surefire investment has fallen apart. Among other factors, high rates of student loan nonpayment (prior to the pandemic, 11 million borrowers were behind on their federal loans)[1] have driven a collapse in public confidence in the value of college.[2] As a result, college enrollment has fallen 12 percent since its peak in 2010.[3]

Is college worth it or not? The truth is somewhere in between. A four-year college degree is still a good investment on average. However, an average is just that; a large minority of students who pursue four-year degrees wind up no better off financially than if they had not attended college in the first place. Moreover, a four-year degree is not the only viable pathway to a comfortable middle-class life. Other promising options exist within the postsecondary education ecosystem, but do not always receive the recognition they are due.

When college pays off—and when it doesn't

My research focuses on the return on investment (ROI) of different postsecondary options. ROI is a measure of the expected financial value of a particular pathway: the lifetime increase in earnings that a student can expect from higher education, accounting for the price of tuition, the opportunity cost of pursuing the credential, and the risk that the student will not complete their program. Programs with positive ROI tend to leave most students better off, financially.[4] Four-year college degrees mostly provide positive ROI, but there is considerable variation. Around a fifth of bachelor's degree programs have ROI of $500,000 or more, but a roughly equivalent number have negative ROI—meaning they leave most students worse off.

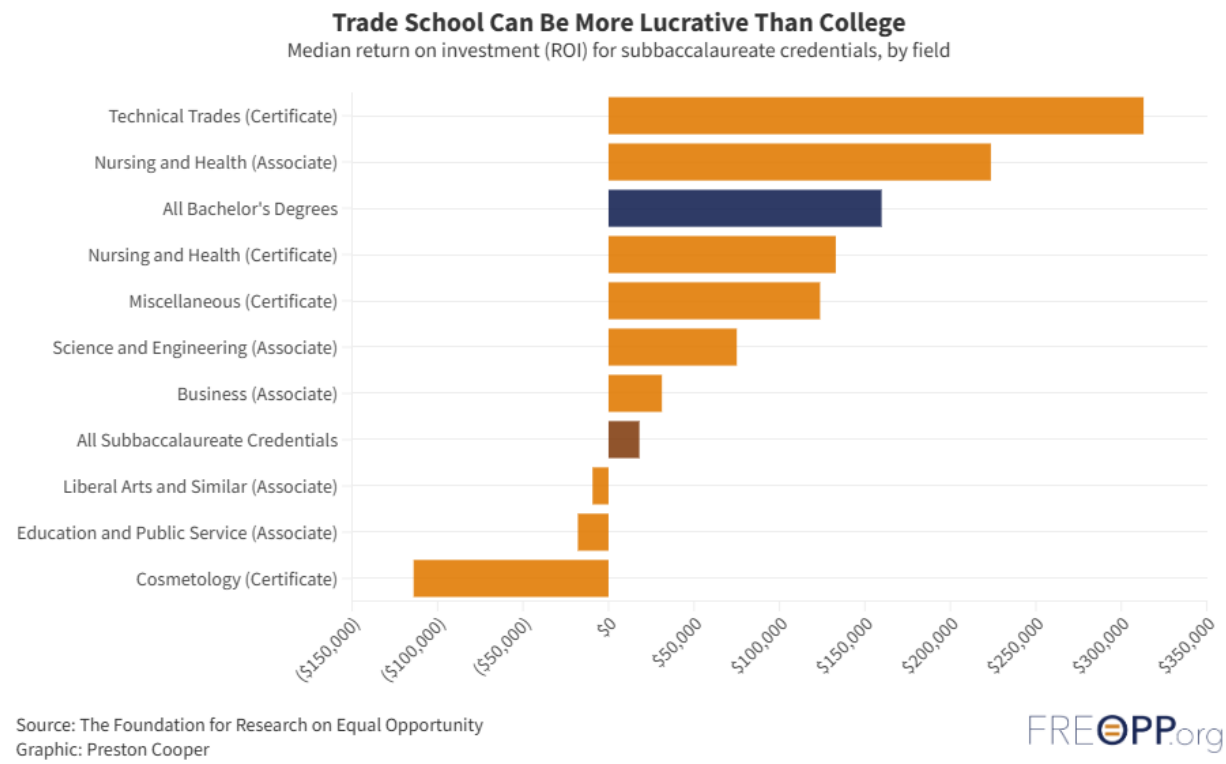


Field of study is perhaps the most important factor determining whether a college degree will pay off. Different college majors unlock different sorts of job opportunities, and some skill sets are more in demand than others. Majors such as engineering, computer science, nursing, and economics tend to deliver very large financial benefits, even after accounting for the costs and risks of college. That isn't always the case for majors such as fine arts, education, and English literature.

But a student's college major is not the only factor that matters. Tuition prices can make a difference; when college is more expensive, it's less likely that your degree will pay off, all else being equal. A degree which pays off when tuition is $5,000 per year may not be a good bet at $20,000 per year.[5] While average tuition has fallen in recent years, it remains well above historical levels.[6]

Graduation rates can also make or break the financial value of college. Most of the economic value of a degree is contingent on finishing the degree: students must graduate to reap the benefits.[7] But nationwide, only 62 percent of students who start college complete a degree within six years.[8] And many colleges do far worse: 124 institutions have a completion rate below 10 percent.[9]

The uneven value of four-year college degrees has led many prospective students to consider community college or vocational school as alternatives.[10] There are many promising pathways in this area: certificates in the technical trades (including vehicle maintenance and repair, precision metal working, HVAC technology, and electrical and power transmission installation) have higher expected payoffs than most bachelor's degrees. But as with four-year degrees, field of study matters at the subbaccalaureate level too. Less-than-four-year credentials in fields like cosmetology or liberal arts have very low, and sometimes nonexistent, ROI.



This analysis doesn't even cover programs that operate outside the federal student aid system. But there are promising options there as well. For instance, Virginia's FastForward initiative offers short-term training for industry-recognized credentials in high-demand occupations; an early analysis shows completers enjoyed a significant boost in wages.[11] America's small but growing apprenticeship system also offers excellent opportunities for on-the-job learning. An analysis of Kentucky's Federation for Advanced Manufacturing Education (FAME) apprenticeship showed high starting salaries and sustained earnings growth for participants.[12]

How federal student loans subsidize low-quality higher education

In the most recent academic year, the federal government disbursed $83 billion in student loans to over 5,300 institutions of higher education.[13] However, the federal government does little underwriting and imposes few quality controls to ensure that institutions deliver the ROI that students and taxpayers ought to expect from postsecondary education. This enables the continued existence of low- or negative-ROI programs.

Numerous studies have linked federal student loan availability to increases in tuition. This allows the costs of higher education to become out of line with the benefits.[14] It also results in the extension of loans to students who are unlikely to pay them back. Prior to the March 2020 pause on student loan payments, 11 million borrowers were in default or more than 30 days delinquent on their loans.[15] The consequences of nonpayment include a lower credit rating, involuntary collections such as wage garnishment, and substantial accumulation of interest and penalties.[16] Much of the burden passes to taxpayers: the Congressional Budget Office expects that the federal government will lose $223 billion on student loans originated between 2025 and 2034.[17]

The federal government's subsidies also create a tilted playing field between "traditional" higher education programs and other pathways. While students can use Pell Grants and student loans for traditional four-year degree programs and many subbaccalaureate credentials, statutory restrictions mean other types of programs are ineligible for funding. For instance, minimum clock-hour requirements mean short-term workforce education programs such as Virginia FastForward largely cannot qualify for Pell Grant funding. A requirement that funds only be used for courses that are part of a degree or certificate program means that some individuals completing apprenticeships or other on-the-job training cannot use their aid to pay for complementary classroom instruction. Finally, new and potentially innovative providers of higher education often cannot get access to federal funding streams thanks to costly and burdensome accreditation requirements.

Looking ahead

All forms of high-quality postsecondary education should operate on a level playing field with respect to federal funding; the federal government should not put its thumb on the scales in favor of the traditional four-year college degree or any other educational model. However, policymakers should also ensure that all federally-funded programs—traditional or nontraditional—maintain high standards with respect to student outcomes. No single postsecondary pathway will be the right answer for every student. Policymakers should therefore aim to elevate high-quality pathways across the board.

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