

U.S. labor markets require a new approach to higher education

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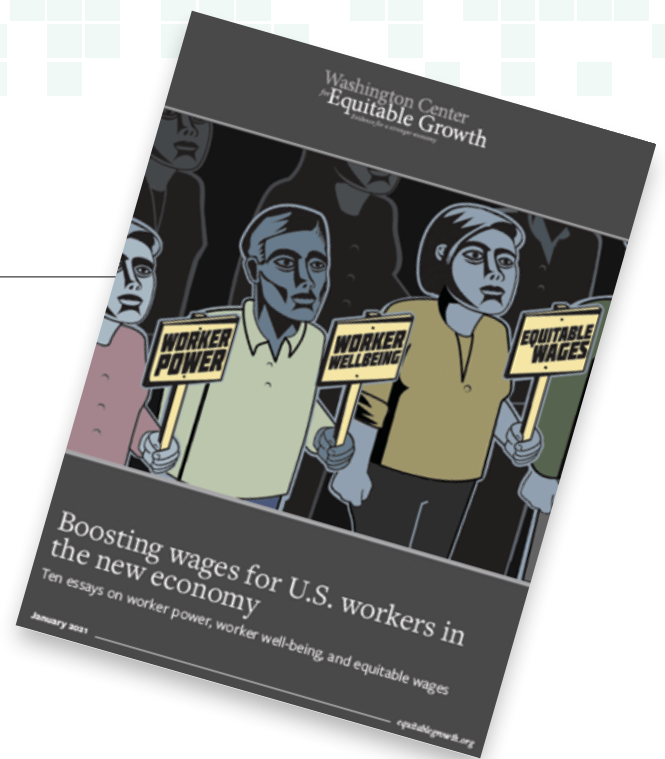
By Equitable Growth

Overview

Higher education plays a key role in both the cyclical and structural aspects of the U.S. labor market. Institutions of higher learning shape and supply skilled labor to the economy. They absorb excess workers in low-income jobs from the labor market by providing a productive alternative to work and by providing opportunities for future advancement. They contribute to the research, development, and dissemination of productivity-enhancing knowledge, which expands the scope of jobs created in the economy, and they are direct sources of good jobs in many localities.

Yet many public universities that perform the best in terms of moving individuals up the economic ladder are increasingly out of reach for average low-income students and students of color.¹ Furthermore, a college degree by itself is not enough: The racial wage divide persists at higher levels of educational attainment, with Black and Latinx workers with college degrees earning lower wages than White workers with college degrees.² By ensuring that workers up and down the income ladder have options in the labor market and opportunities for advancement, a democratic higher education system increases bargaining power of workers while providing among the highest returns on investment in a public policymaker's toolkit.³

This factsheet is based on the essay by economist Andria Smythe at Howard University titled "U.S. labor markets require a new approach to higher education," which makes the case for a renewed public investment in higher education and outlines a set of policy reforms. The essay is part of Boosting Wages for U.S. Workers in the New Economy, a compilation of 10 essays from leading economic



thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

Returns to higher education are not equitably distributed

There are a number of other reasons why the once-prevailing idea that investments in higher education were a ticket up the economic ladder did not endure. One reason is that returns to investment in research, development, and experimentation are not fully realized. Universities are responding to “market demand” and a decline in funding by reducing course offerings and eliminating different majors and minors.⁴ Then, there are problems with the so-called STEM, or science, technology, engineering, and mathematics, degrees, which are plagued by a lack of representation that places even more limitations on the range of job options available to poor students, women, and students of color.⁵

In addition, the local-area economic benefits of universities are not fully pursued. Universities and university-affiliated medical centers are among the largest employers in many cities, and proximity to a university is often associated with recent growth of high-tech industries and local economic and job growth in the same county as the university, as well as nearby areas.⁶ Yet funding for research and development in the United States is very unequal geographically.

Finally, the immediate effects of university enrollment on labor market outcomes are not fully pursued. Higher

education plays an important role in reducing surplus labor in low-wage sectors of the U.S. economy, especially among young adults. But the slow rate of wage growth combined with high-tuition growth means the amount of work required to fund college is rising.

In the 1970s, the typical student would need to work approximately 400 hours in order to pay a year's worth of tuition at a public 4-year college. This is equivalent to 10 weeks of full-time, 40-hours-a-week employment—something that could be done during the summer months. Today, a typical low-wage worker would need to work close to 1,000 hours to afford the cost of tuition.

Policy proposals to reform higher education

Higher education is a good with unquantifiable positive externalities that accrue to large swaths of U.S. society, even those who do not participate directly. The quantifiable fiscal rate of return for government investment in college students is positive and large, conservatively estimated to be more than 25 percent.⁷ Yet total government spending per college degree over a college graduate's lifetime is actually negative, meaning that the government receives more in tax revenue minus benefits from a college graduate.

No other services industry occupies a more strategic position than higher education to achieve these goals. As such, the United States requires targeted higher education policies aimed at boosting wages and jobs growth across the nation that would:

- Build on lessons from the GI Bill to set economic signals and incentives for higher education that broaden job opportunities and boost broad-based wage growth in the U.S. economy, such as by adopting a debt and a tuition-free model to higher education
- Boost public investments in regional research and development to ensure these public investments result

in nationwide prosperity for all students, especially low-income students and students of color

- Expand postsecondary school admissions, learning, and attainment of degrees to create educational pathways that generate new jobs and new services and industries needed in a productive U.S. economy in the 21st century

Read the full essay

[“U.S. labor markets require a new approach to higher education,”](#) by **Andria Smythe**

This essay is part of [Boosting Wages for U.S. Workers in the New Economy](#), a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

Endnotes


- 1 Raj Chetty and others, “Mobility report cards: The role of colleges in intergenerational mobility.” Technical report (National Bureau of Economic Research, 2017), available at http://www.equality-of-opportunity.org/papers/coll_mrc_paper.pdf.
- 2 Austin Clemens and others, “Interactive: Comparing wages within and across demographic groups in the United States” (Washington: Washington Center for Equitable Growth, 2019), available at <https://equitablegrowth.org/demographic-group-wages-interactive/>.
- 3 Philip A. Trostel, “The fiscal impacts of college attainment,” *Research in Higher Education* 51 (3) (2010): 220–247.
- 4 Matt Krupnick, “Colleges Pit Music Against Math as Funding Dries Up,” *TIME* Magazine, January 28, 2015, available at <https://time.com/3685071/college-majors-employment-graduation-rates/>.
- 5 Lisa Cook and Jan Gerson, “The implications of U.S. gender and racial disparities in income and wealth inequality at each stage of the innovation process” (Washington: Washington Center for Equitable Growth, 2019), available at <https://equitablegrowth.org/the-implications-of-u-s-gender-and-racial-disparities-in-income-and-wealth-inequality-at-each-stage-of-the-innovation-process/>.
- 6 Douglas Woodward, Octavio Figueiredo, and Paulo Guimaraes, “Beyond the Silicon Valley: University R&D and high-technology location,” *Journal of Urban Economics* 60 (1) (2006): 15–32; Alexandra L. Cermeño, “Do universities generate spatial spillovers? Evidence from US counties between 1930 and 2010,” *Journal of Economic Geography* 19 (6) (2019): 1173–1210; Shimeng Liu, “Spillovers from universities: Evidence from the land-grant program,” *Journal of Urban Economics* 87 (2015): 25–41.
- 7 The average real fiscal rate of return on government investment in college students. Trostel, “The fiscal impacts of college attainment.”

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