Independent Women's Forum

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Chairman Williams, Ranking Member Velazquez, and Members of the Committee thank you for inviting me to appear today.

My name is Patrice Onwuka, and I am the director of the Center for Economic Opportunity at Independent Women's Forum. We are a nonprofit organization, committed to increasing the number of women who value free markets and personal liberty. We advance policies that enhance people's freedom, opportunities, and well-being.

Steady employment serves as the most basic building block for economic mobility. Unfortunately, work can be elusive for millions of workers who lack employers' desired combination of education, skills, training, or experience. For employers such as small businesses, the shortage of qualified candidates limits their ability to keep up with customer demand and grow their businesses. Although the tight pandemic labor market may be easing, employers are still grappling with widespread, longer-term labor shortages driven by demographic changes and other forces.

Sometimes, government policy, even when well-intentioned, erects barriers to opportunity for individuals and contributes to the labor supply challenges that employers face. It's incumbent upon policymakers to work in a bipartisan manner to dismantle those barriers if we want to ensure economic growth for businesses and prosperity for all.

Costs of Higher Education

For generations, a high school diploma was a sufficient level of education to obtain gainful employment that could be augmented with skills training for a specific occupation. Increasingly, a high school diploma and years of experience or skills are not enough to obtain employment that can provide a middle-class life or a path to upward mobility.

Today, more Americans hold a college degree than ever before. As of 2021, **37.9 percent** of adults held a bachelor's degree, according to data from the Census Bureau. This is up from just **7.7 percent** in 1960. Gen Z is on track to displace millennials as the **most college-educated** generation. Women are **more likely** than men to graduate from college. However, fewer students come from lower-middle and working-class backgrounds.

Still, some **70 million** workers do not possess a college degree at all and their labor force outcomes are diminishing. The unemployment rate for high school graduates is twice as high as the rate for college graduates and above the overall unemployment rate (**4 percent**, **2 percent**, and **3.5 percent**, respectively). The labor force participation rate of non-grads is **56.3 percent** compared to **73.1 percent** for bachelor's degree holders.

Both younger and older adults feel the pressure to pursue higher education in order to secure their first job, next job, or a promotion to a higher-paying job. If collegiate courses of study provide knowledge specific to a person's occupation or if liberal arts degrees arm students with soft skills that employers find desirable, then a four-year degree can be beneficial to both students and employers. However, employers and workers increasingly question the value and worth of a degree in terms of cost and workforce preparedness.

The cost of higher education is outpacing inflation, making a four-year degree unaffordable without incurring debt for most families.

Government-subsidized student loans are fueling this increase in college. For every dollar from the federal government that a university takes in, its tuition increases by **65 cents**. The rapid increase in the cost of college means fewer working-class and poor students can even afford to attend. Students from the lower two economic quartiles make up a **smaller percentage** than they did in the 1960s.

Today, Americans owe $1.7 trillion in outstanding student loan debt. Not only does this debt create cost pressures on household budgets struggling with stagnant inflation, but it delays younger borrowers from generational milestones of purchasing homes, getting married, and starting or growing families. Local small businesses miss out on the economic activity that household formation spurs.

Student loan debt also erects a barrier to opportunity, especially for working-class and middle-class parents, who want to send their children to college or pursue higher education themselves.

Younger generations question the value of a college degree especially if the return on the investment is negative. In a YouGov poll, a **third** of those with degrees say the debt was not worth it. According to a recent **report** by the Federal Reserve, nearly four in ten associate degree recipients and people with some college but no degree who hold outstanding student loan debt said the costs of their education exceeded the benefits, compared with three in ten who view the benefits as greater than the costs. Among bachelor's degree holders with debt, 72 percent said the costs of their education were greater than the benefits, compared with only 46 percent of those who never had debt.

Higher education does pay off for many degree holders in terms of higher wages and lower unemployment, but the debt load acquired along the way is not negligible. For non-degree holders, the rise of degree requirements in the workforce leaves fewer opportunities available for them to achieve upward mobility.

Employers increasingly recognize that college diplomas are not necessarily signs of job preparedness or competence and can weed out quality job applicants who may perform on par or above college graduates.

Workforce Challenges

American businesses face unprecedented labor challenges: labor shortages and the skills gap. The Labor Department recorded **9.9 million** open positions in March 2023. Yet, there are **5.8 million** unemployed Americans and the labor force participation rate stands at 62.6 percent, below pre-pandemic levels and pre-Great Recession levels.

Labor shortages are pronounced in skilled and technical occupations such as the trades and healthcare sectors. So-called middle-skilled jobs such as plumbers, plant operators, railroad workers, machinists, and electricians require a specific skill set but not necessarily a college degree.

Today, the construction industry faces a gap of a **half million** workers. That gap is expected to widen as federal funding for infrastructure projects, such as upgrading roads and transit systems, flows across the country and demand rises for even more labor.

In health care, the demand for physicians will outstrip supply leading to a projected shortage of between **37,800 and 124,000 physicians** by 2034, including 48,000 primary care physicians according to the Association of American Medical Colleges. Federal projections suggest a **shortfall** of over 100,000 nurses.

As the population ages, the need for health services will increase, and treating long-term illnesses will strain the healthcare workforce. Meanwhile, aging doctors and nurses will exacerbate shortages of these healthcare professionals.

How did we arrive at this point? In part, an education revolution that imagined a fully college-educated workforce took a one-size-fits-all approach regardless of the unintended consequences. Tracing back to Lyndon B. Johnson's Great Society programs, federally-backed student loans were meant to provide everyone the opportunity to pursue higher education if they met academic requirements. Unfortunately, the cost of college became untethered from the value of the degree.

The “Every-Kid-To-College” movement promoted a four-year degree as the path to the middle class and focused high school students on college preparedness. By setting a four-year degree as the ideal path, it stigmatized trades and directed many students away from entry-level careers in industries that can actually deliver middle-class lifestyles with ample opportunities and entrepreneurship potential, but without debt. The median salary for plumbers, pipefitters, and steamfitters was $59,880 in 2021 and **$73,060** for farmers, ranchers, and agricultural managers. Job growth is slow and even negative for many of these positions.

Now, Gen Z and millennials are least interested in skilled trades and technical work. The number of applications for people seeking technical jobs—like plumbing, building, and electrical work—plummeted by 49 percent in 2022 compared to 2020, according to **data** published by NPR.

As fewer younger workers pursue skilled occupations, businesses struggle to find candidates with industry experience, the required training, or basic skills to fill open positions. As a result, their economic growth is stunted. Nearly half (47 percent) of small business owners polled by the **National Federation of Independent Business** reported job openings that they could not fill in January 2023. One in three small business owners has openings for skilled workers while one in five has openings for unskilled labor.

An analysis from the U.S. Chamber of Commerce found that just **10 percent** of the unemployed population has experience in financial activities, information technology, and transportation industries, which often require specialized skills and training.

To address shortages, private industries at the local and national levels have had to develop their own pipelines of talent from K-12. Working with local governments and schools, they have increasingly become more intentional about developing apprenticeships and training programs as well as partnering with middle and high schools to create pathways for students to obtain the training needed to pursue jobs in their industries.

Declining Labor Force Participation

Labor shortages also reflect labor force participation which has been on the **decline** since around 2000. The pandemic contributed to the downward trend, but several other factors remain dominant forces. Retirement of baby boomers and non-college grads—particularly young men—faltering in the workforce are trends that exacerbate current worker shortages and that will force downward pressure on labor force participation rates for years to come.

About 10,000 baby boomers turn 65—retirement age—each day. The Census Bureau **predicts** that the entire generation is expected to reach retirement age by 2030. The public policy implications are wide-reaching, but in the labor market, this is contributing to labor shortages. In 2020, at least an additional 1.1 million baby boomers retired from the workforce.

Baby boomers make up the majority of the skilled trade workforce, and there aren't enough qualified younger workers to replace them. As noted, younger workers have shied away from the trades in lieu of college.

A very recent counter-trend has **emerged** as employers are increasingly seeking out older workers because of their work ethic. People 55 and older are the fastest-growing segment of the workforce as some are coming out of retirement to fill critical shortages as they grapple with inflation and a weak stock market. Time will tell how large and lasting the impact of unretirement will be for the labor force.

Automation

The future of work will undoubtedly be affected by automation. ChatGPT is just the latest example of how automation can impact employment opportunities as artificial intelligence increases efficiency but also displaces labor.

One in four U.S. jobs is at risk of being replaced by automation according to the Brookings Institution. Those at "high risk" include about 36 million jobs in office administration, production, transportation, and food preparation. Jobs in these sectors with tasks that include physical labor, information collection, and routine processing activities expose them to automation risks. Meanwhile, positions that have non-routine or "abstract" activities and require social and emotional intelligence are less at risk.

Innovation begets innovation and, certainly, new jobs that aren't envisioned today will be created despite disruptions to employment in other sectors. However, it's imperative that policymakers prioritize reskilling the labor force especially for jobs that are at lower risk of being automated, expanding access to skills development, removing regulatory barriers to obtain certifications, and expanding entrepreneurial opportunities.

Degree Inflation

Some of the challenges that employers encounter in filling open roles with qualified candidates are self-inflicted. Employers routinely use college degrees to screen applicants and hire people for open positions, even if the degree is unconnected to job duties or performance. The proliferation of degree requirements is known as "degree inflation."

According to a 2017 Harvard Business School **study**, some 61 percent of employers have rejected applicants with the requisite skills and experience simply because they didn't have a college degree. The study analyzed more than 26 million job postings and identified about 8 million jobs that varied in educational requirements from a bachelor's degree or higher to no college at all for the same positions, signaling that a degree is not necessary for the function of the job. If current trends continue, the authors found, "as many as 6.2 million workers could be affected by degree inflation—meaning their lack of a bachelor's degree could preclude them from qualifying for the same job with another employer."

As I explained, in a recent **white paper**, "Millions of non-college-educated people could be gainfully employed in upwardly mobile careers, but degree requirements stand in their way. Others could be trained to obtain desired skills without ever needing to step onto a college campus."

This impacts their earnings potential and their ability to transition into higher-paying opportunities. Men, in particular, have lost out on middle-wage jobs due to degree inflation as evidenced by the more dramatic decline of labor force participation among males without bachelor's degrees than among those with them. Degree inflation also hurts blacks and Hispanics aged 25 years and older, populations with college graduation rates that lag behind the national average. Unfortunately, a bachelor's degree joins other forms of credentialing, such as **occupational licenses**, in creating a significant barrier to opportunity for people.

The college diploma was adopted as a convenient hiring shortcut and alternative to competency tests or other hiring tests, which courts have found to be discriminatory. But degree inflation hides costs to employers.

In an economy with millions of available positions, degree inflation makes middle-skill jobs more difficult to fill, and that can, in turn, lead to wage inflation as employers pay a premium to attract degree holders. Employers pay college graduates between **11 percent and 30 percent** more for jobs that non-degree holders fill. Yet, non-grads perform as well or better than their degreed counterparts.

The college diploma has turned out to be a poor signal of soft skills such as critical thinking, teamwork, and writing skills among college graduates. Employers **report** that college grads have higher turnover rates, exhibit a greater propensity to defect to competitors, and are more likely to feel unengaged or underutilized compared with non-degree holders.

Encouragingly, a reset, that began during the Great Recession and accelerated during the pandemic, is underway. According to an **analysis** by Burning Glass Institute, between 2017 and 2019, degree requirements declined overall in 63 percent of occupations, but more specifically in 46 percent of middle-skill and 31 percent of high-skill occupations. Finance, business management, engineering, and health occupations experienced the most significant declines.

In 2020 employers suspended degree requirements in 27 percent of occupations with the most pronounced impact among middle- and high-skill occupations, particularly in the healthcare sector. If trends continue, a projected additional 1.4 million jobs could become available to non-degree workers over the next five years.

Members of Congress and other lawmakers have an opportunity to lead on this bipartisan issue. Public employers should consider removing degree requirements for public service positions unless the degree is germane to the job duties. In June 2020, President Donald Trump issued **Executive Order 13932** to reform civil service employment to replace degree-based hiring with skills- and competency-based hiring approaches. Several states have eliminated degree requirements for state jobs including **Maryland**, **Utah**, and **Pennsylvania**.

Credential Challenges

Skills-based credentialing can be an alternative to a four-year degree. However, government-imposed occupational licenses can also become an impediment to opportunity for individuals who don't want to incur debt while limiting competition and discouraging entrepreneurship.

Before beginning a job in certain occupations and fields, states require that individuals obtain an occupational license. This credential is supposed to verify that he or she has obtained a level of education, training, and testing to deliver a good or service. Over the past 60 years, the number of occupational licenses has risen from just 5 percent of workers in the 1950s to more than one out of four workers today.

Despite claims by supporters, some licenses have no connection to public health or safety at all. Instead, they serve to protect established businesses against new competition allowing them to keep prices for their services high.

Excessive occupational licensing has robbed our economy of nearly **3 million jobs**, cost the national economy $6 billion, and prevented workers who already face social and economic challenges from gaining access to opportunities and economic mobility.

The licensure system often holds back immigrant workers and those with criminal records. Half of the states impose blanket restrictions against individuals with a criminal record obtaining a license—even if the license is an occupation unrelated to the crime they committed.

Military spouses are uniquely affected by excessive licensing. Nearly all of the 600,000 military spouses in the U.S. are highly educated (89 percent have some college education) but experience an astoundingly high **33-percent** underemployment rate. Because states vary in the requirements for a given occupation, it is difficult for workers who move frequently, such as military spouses, to be gainfully employed.

Over the past few years, bipartisan support for occupational licensing reform has unified Presidents **Barack Obama** and **Donald Trump** and governors of red and blue states. There is no national standard, nor should there be as it could unintentionally force states to create licenses that did not exist before or to increase licensing requirements that were not as high to the new national level. However, the federal government can provide resources and encouragement—such as through the Federal Trade Commission—for states to design their own reforms.

Individuals who want to start their own businesses should not be limited by onerous, excessive licensing requirements that serve only to limit competition instead of encourage it.

Independent Contracting

People who do not want to attend college or have the skills and experience to become their own boss should not be cut off from entrepreneurship. Freelancing offers opportunities for individuals to launch small businesses across the country, but that entrepreneurial spirit is at risk from legislative and regulatory challenges.

In 2022, an estimated **65 million** people freelanced. Unlike traditional employees, independent contractors (including freelancers, gig workers, and consultants) control when, where, and how they work. This flexibility is one reason that contracting jobs are increasing in popularity, especially among women.

Technology has expanded independent contracting opportunities as digital platforms match workers to businesses looking to hire them for tasks and projects such as ridesharing, secretarial work, or delivery services, in what is known as the gig economy.

Independent contractors understand that there is a tradeoff with this arrangement. In exchange for a guaranteed salary and benefits, they receive the flexibility to determine their schedule and the autonomy to decide whom to work for, what work they do (or don't do), and how they get it done (i.e. being their own boss). Nearly 75 percent of freelancers are working independently by choice. Nearly **two out of three** women working in the gig economy (61 percent) would prefer to be independent while only 12 percent said they would want to be an employee of the company for which they gig.

In 2019, the California legislature passed Assembly Bill 5, a law that drastically changed the employment arrangements for at least one million independent contractors across the state. The law, which took effect on January 1, 2020, requires that employers prove they meet the **ABC test** for their workers to be lawfully classified as independent contractors. Proponents assumed that businesses will simply hire their contracted workforce as employees and offer them all the benefits of salaried workers. This ignored the substantial costs to businesses, as well as the preferences of workers. AB5's passage and enactment spawned the loss of income, contracts, and livelihoods of **thousands** of workers across the state.

Efforts to reclassify independent work nationally would have sweeping impacts on freelancers and the companies that hire them. A **study** by the American Action Forum estimates that the costs of reclassifying independent contractors as employees under a more stringent test could produce between $18.4 and $61.4

billion in additional weekly employment costs for businesses. A national version of AB5 could risk up to 8.5 percent (**$2.2 trillion**) of the U.S. GDP.

Congress and regulators should not nationalize labor policy that could destroy income-generating entrepreneurial pursuits for enterprising men and women, which do not require taking on a debt load.

Conclusion

Fulfilling work and a middle-class life have been closed off to too many Americans because well-intended public policies erect barriers to opportunity. One-size-fits-all approaches to educating our citizens for careers in the workforce have collided with demographic changes and technological advances to exacerbate worker shortages that will persist long after the pandemic is over.

Policymakers have an opportunity to start to turn the tide and prepare for the future.

- Consider how the government's financing of higher education impacts the rising cost of college and how private, free-market financing of loans would restore natural limits to cost increases in the education sector.
- Encourage alternatives to student loan financing such as innovative **Income Share Agreements**, which allow students to borrow on a percentage rather than on an absolute basis in exchange for a certain percentage of their income for a predetermined number of years.
- Fight degree inflation by removing degree requirements that are unconnected to job duties.
- Support states in pursuing occupational licensing reforms that hamper individuals from working and launching businesses in specific occupations.
- Reject unnecessary restrictions on freelancing that will destroy flexible independent work.

Thank you for your time.