Credentials, Colleges, and Economic Mobility

Uneven Outcomes in the Labor Market:
Understanding Trends and Identifying Solutions

Philadelphia, PA (virtual)

February 3, 2021

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Good morning, good afternoon, and good evening to this audience spanning time zones! It's an honor to be here today at this very important conference. And as a recovering academic, I'm particularly delighted to be here on Day 3, when we will be discussing credentials and higher education. This is a vitally important topic for the health of communities across our country, and I truly thank you for having me.

Now, before we proceed with today's program, many of you veterans of Fed events will know what's coming next: that's right, the standard Fed disclaimer. The views I express today are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

Pathways to Success

Education has long been an engine of economic mobility, and economic mobility is something approaching a national creed of the United States. We believe that anybody — no matter how humble the circumstances in which they were born — should have a pathway to the middle class.

For me, that pathway was football. I grew up in a blue-collar town next to Camden, NJ. My dad, a union pipefitter, died when I was 9. Much-needed financial aid landed me at Penn where I was a first-generation college student. That was the beginning of a journey that I could never have imagined when I was a boy growing up in South Jersey.

Others’ pathways are going to look different from mine. And given that 40 years later I’m still carrying around injuries I got playing football at Penn, that’s probably a good thing.

But unfortunately, far too many Americans born in tough circumstances, particularly racial and ethnic minorities, are having a tough time finding their pathway up. It’s incumbent on all of us as Americans to think hard about how we are going to fix what — to my mind — is a profound moral problem: the lack of economic mobility.

So, what do we do?

Skills More Than Degrees

I’m a career academic and former university president, so this probably sounds like Ronald McDonald admonishing you to lay off saturated fat. But the truth is that many — maybe most — Americans don’t need a traditional four-year college degree. What they need are the *skills* that will propel them into middle-class jobs. For my dad, my uncles, and my brother, that was pipefitting. And for many, that’s still a great option. For others, it will be something else.

Many skills today are gained through a variety of short-term programs that do not lead to degrees but can provide marketable new skills. These courses can be as short as two months, and students — many of whom are in their midcareer and are looking to retool — gain a marketable new skill. According to a recent Georgetown University study, these can make a meaningful difference in enrollees’ careers: Certificates in engineering technologies can lead to high earnings, as do those in fields like information technology and legal studies. Indeed, the study found some certificates can yield earnings that rival those of bachelor’s degrees in other fields.

These short-term credentials can be gained in many venues, from traditional community colleges, to private academies like computer coding boot camps both online and brick and mortar, to public–private partnerships designed to provide pipelines of talent to the private sector. The way the latter works is that companies essentially outsource a portion of their employee training to outside vendors, using a “pay for success” model. That means the company reimburses the entity that paid for the training in the first place — say, the local publicly funded job board — if the new hire hits certain benchmarks, like staying on the job for six months. It can be an effective way to entice corporations to hire from populations they may find too risky or for which they lack sufficient familiarity, particularly those in underserved communities. The workers will benefit, of course, but so will the companies who will have access to an undertapped pool of talent.

All in all, getting new skills for people strikes me as a situation in which we need to experiment across a wide variety of approaches and methods. We have a lot to learn, and the task couldn't be more important.

At the Fed, we've also been studying ways to get people into what we call *opportunity occupations* — jobs that pay the median wage or better and that don't require a four-year college degree. What's truly exciting is that our researchers have found that many workers already possess the skills they need to increase their income — all they might need is a little additional training.

My colleagues in Cleveland and Philadelphia looked at the skill sets of people who are holding at-risk or low-wage jobs. They then matched those skills to jobs that would pay at least 10 percent more than their current wage and that don't require a traditional four-year degree. Looking at 33 metro areas nationwide, they found that nearly half of lower-wage employment can be paired with at least one higher-paying occupation requiring similar skills. For transitions connecting the most similar occupations identified in the study, the average bump in wages was almost $15,000 — real money. On our website, we've recently launched what we call an Occupational Mobility Explorer, where workers can plug in their own skills, where they live, and see what's out there.

The Four-Year Option

For others, a four-year degree is still going to be the best option. But far too many students, through no fault of their own, enter demanding institutions without adequate preparation. Many have unfortunately attended high schools that left them ill prepared for college-level work or have had life challenges that have left them unprepared for the demands of a selective college or university. That can be disastrous, because once a student falls behind academically, it's very, very difficult to catch up.

That's why I'd like to talk a little bit about a program at the University of Delaware (UD), where I used to be president. UD's Associate in Arts Program not only provides a pipeline of students into the university, but also makes sure they are poised to succeed once they get there. I hope our experience in Delaware can provide a useful example for states nationwide.

The way the associate in arts program works is this: UD courses are taught by UD faculty in small classes in Delaware Tech buildings throughout the state. (Delaware Tech is the state's public community college.)

Students receive an associate's degree in University Studies by earning credits in the core courses that are required of all undergraduates, and then transition to UD's main campus to earn their bachelor's degree. Most full-time students receive money from the state to cover their tuition. The program is high touch, with small class sizes and lots of interaction between faculty and students.

I'm thrilled to report that 64 percent of students in the program graduate with their associate's degree within three years — well above the national average of around 33 percent. Of those, 88 percent go onto the main campus at UD, and nearly 80 percent of those graduate with a bachelor's degree.

Because the program is taught by UD faculty, the transition from associate's to bachelor's degree becomes something approaching seamless. A member of the English faculty who is teaching in the associate in arts program knows exactly what her students are prepared for once they enter a UD English course, for instance.

Is the associate in arts program going to be replicable in every context across our vast country — particularly when state budgets are under pressure and education funding is under threat? Of course not. But as with certification programs, I'm suggesting we let a thousand flowers bloom. Now is the time to experiment with new models and new pathways to success.

Funding Options

As with so much else in modern life, a big question surrounding all of this is: How do you pay for it? The traditional student loan has become a millstone around the necks of far too many Americans. Total student loan debt now tops $1.7 trillion, surpassing credit card debt and second only to mortgages. Researchers at the Philadelphia Fed and throughout the Federal Reserve System have studied the ways in which student debt burdens affect subsequent credit outcomes and life events. And all the while, student loan programs are often disproportionately inaccessible to lower-income and minority borrowers due to stringent credit criteria. Besides, many microcredential courses like coding boot camps typically aren't eligible for federal student loans, meaning many students dig deep into their own pockets or borrow money from family and friends to make necessary investments in their careers.

And even among those students who receive student loans and generous financial aid, that sometimes isn't enough. At the Philadelphia Fed, we've studied the effects of Bridging the Gap, an innovative program at Rutgers University–Camden that significantly reduces or even eliminates 100 percent of tuition for middle- and low-income students.

What we found is that, even though reduced tuition was a huge help, many students still had challenges managing ongoing living and educational expenses beyond tuition. They still needed to work to support their families, for instance, or scrimp and save for books and other educational materials. Another challenge for students is geographic; it can be emotionally and economically difficult for students to leave their hometowns for education — particularly, again, if their family members count on them for financial support.

Income-based repayment programs offer one potential alternative worth exploring. They are designed so students make payments once their incomes rise above a minimum threshold, and students will never pay more than the cap set at the onset of the agreement. But absent strict oversight, income-based repayment programs could be ripe for abuse, so regulators will need to keep a very close eye on them.

The bottom line is this: There is an urgent need for education — certificate or degree based — to be more affordable for more people.

This will take input and action from many segments of society — government, civil society, the corporate sector, and, perhaps especially, from the universities and colleges themselves. The Fed has a role to play, too, with our research and convening power.

To me, increasing accessibility to education in all its forms is not only an economic imperative but a moral one as well. Indeed, the economic effects of the pandemic are already having a noticeable impact on enrollment among our country's most disadvantaged.

According to the National Student Clearinghouse, enrollment at two-year institutions was down significantly in fall 2020 versus the prior year. First-time enrollment and enrollment for many well-paying vocational programs are even further down. These declines are concentrated among freshmen enrollees — particularly Black, Hispanic, and Native American students. This is a trend we need to do everything in our power to reverse. Once again, too many pathways are being blocked.

With so much at stake and this being such an important topic, I thank you again for having me today. But before I go, with the recent change in administration in Washington, and the Super Bowl coming up, I can't resist making one more plug for my old university. Did you know that UD is one of only five schools nationwide to have graduated both a Super Bowl starting quarterback and a U.S. president?

So, thank you again for having me. Now over to you, Keith.