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RISING EDUCATION LEVELS PROVIDE DIMINISHING ECONOMIC BOOST

Share of workers with college degrees has kept growing, but productivity gains have been tepid.

By Josh Mitchell
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The US lacks a key ingredient that helped propel it to economic dominance in the 20th century: productivity gains from higher education. Figuring out why could help influence the economy's long-term trajectory once it emerges from the coronavirus crisis.

In 2009, President Obama, worried about the economy's global standing, set a goal for the US to have the world's most-educated workforce by 2020.

The share of US workers with college degrees has grown significantly, even if the country fell short of his goal. But those gains haven't translated into a substantial productivity boost as Mr. Obama and economists hoped.

Rising education levels—first in high school, then in college and graduate school—helped fuel strong economic growth in the latter half of the past century. In 1910, just 14 percent of Americans age 25 or older had a high-school diploma and just 3 percent had a bachelor's degree, census data show. By 2000, 84 percent had graduated from high school and 26 percent had a bachelor's degree.

As Americans raised their skills, the country shifted from an agrarian economy in the 19th century to an industrial one and then a digital one, leading to electrified cities, the mass assembly line, television, the computer, men on the moon, and the internet. American households became wealthier, and living standards climbed rapidly. It was all tied to education, argued Harvard economists Claudia Goldin and Lawrence Katz in their 2008 book, "The Race Between Education and Technology." More-educated workers use their knowledge and skills to invent and innovate, helping the economy become more efficient, thus boosting productivity—or output per labor hour—the key ingredient to rising living standards, they argue.

Productivity rose an average of 2.3 percent a year from 1947 to 2000, Labor Department data show. Ms. Goldin and Mr. Katz estimate roughly a quarter of the average annual gain came from rising educational attainment.

When Mr. Obama took office in 2009, his advisers worried that slow gains in higher education threatened to undermine long-term economic growth. In 1992, the US had more college graduates as a share of all citizens between ages 25 to 64 than any other developed country, according to the Organization for Economic Cooperation and Development.

But by 2009, the US ranked fourth, behind Canada, Israel and Japan. Mr. Obama's advisers believed the US economy could slip into mediocrity if it didn't further boost its "human capital," or workers' knowledge and skills. Improving human capital would lead to stronger productivity growth, they said.

College enrollment, which had already started rising when Mr. Obama took office, accelerated during his first term. By 2019, under the Trump administration, nearly half of all Americans between ages 25 and 29 had an associate degree or higher, up from 37 percent in 2005, census data show. The share with a bachelor's rose to 39 percent from 29 percent.

Nonetheless, productivity has grown tepidly. From 2007 to 2019, the productivity of nonfarm businesses rose an average of 1.4 percent a year. Why is unclear.

Mr. Katz says the data show higher education still helps individuals and society on average. One piece of evidence is the college wage premium: In recent years, college graduates have, on average, earned 75 percent more than workers with a high-school diploma who never attended college, according to the Federal Reserve Bank of New York. Many economists believe employers' willingness to pay graduates more proves that grads are more productive. The persistent wage premium suggests that demand for their skills and knowledge hasn't been satiated, the theory goes.

So why hasn't the premium declined with the surge in college grads? Mr. Katz says higher education, in the aggregate, doesn't carry the same productivity punch it once did. In the 21st century, the contribution of higher-education gains to annual productivity growth has been cut in half, compared with the past century, he said.

He believes one big factor is the change in the types of schools Americans attend. For those who attend public and nonprofit four-year universities, there is still a big payoff in the form of higher wages and productivity. But, he said, a lot of Americans who earned degrees this century attended schools without a big payoff, particularly many for-profit colleges, which were a big part of the early 2000s college-enrollment boom.

George Mason University economist Bryan Caplan, in his 2018 book, "The Case Against Education," offers a different explanation. He argues that while many college graduates are more productive than nongraduates, it isn't because college made them that way. Rather, many graduates already had valuable attributes—such as an ability to focus and learn quickly—before college. Their degree simply signals to employers that they have long had these attributes, making it easier for hiring managers to sort through job applicants.

"There's very good data on years spent in school but very crummy data on what they actually did" or learned in college, he said.

Messrs. Katz and Caplan may be closer in agreement than they might admit. They largely differ in their prescription for the economy: Mr. Katz favors four-year degrees at traditional colleges, while Mr. Caplan favors the Trump administration's emphasis on vocational programs that teach specific trade skills. But they agree on a fundamental flaw of the US higher-education system: the decadeslong notion that college of any type—and at any cost—will deliver substantial payoffs to individuals and the economy.

To get the maximum benefit from higher education and return to strong productivity growth, both camps agree, US policy makers and families should be more selective about which programs are offered and which schools to attend.