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Chapter 9

Work Means More Than Making a Living: Labor, Challenges, and Opportunity

Every month, millions of Americans remain disconnected from the workforce. The economic costs are measurable in gross domestic product and tax revenue. But the human costs—measured in years of life lost, relationships severed, and skills atrophied—reveal that the role of work is far more fundamental than economic exchange. Just as the United States has historically invested in physical capital, it now needs to invest in human capital with the same attention and focus.

The Value of Work

Policy discussions often treat work either as just a means to an end—a paycheck—or as a terrible monster to be vanquished. The dominant cultural narrative celebrates retirement as liberation and views unemployment through a narrow, materialist lens—that the only real issue in joblessness is a lack of money. But what if this framework fundamentally misapprehends the role work plays in human flourishing?

The act of working seems to shape well-being at least as powerfully as income itself (Winkelmann and Winkelmann 2003). Work is a center of meaning, a means of identity and purpose, and a powerful node of human relationship and connection (Durkheim 1897; Jahoda 1982). Understanding these "latent" benefits of work is essential for crafting policies that truly support human welfare.

Moreover, the case for employment extends beyond individual well-being to broader social value. Employment generates substantial positive externalities for the community: workers contribute tax revenues that fund public goods, create value captured by firms and other stakeholders, and generate a consumer surplus through increased production. These social returns mean that policies affecting employment have consequences extending well beyond the individuals directly involved.

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This chapter synthesizes the best available evidence showing the benefits that work provides beyond income—benefits with critical implications for living well. Using longitudinal data from RAND's Health and Retirement Study (1992–2022), along with findings from the broader economic literature, four striking facts are documented: work improves health and extends life by years; work increases happiness and reduces depression; work helps to develop the knowledge and skill of individuals; and work provides a webbing of social connection and community.

Data Description and Methodology

To isolate the effects of work beyond income, this chapter uses longitudinal data from RAND's Health and Retirement Study (HRS) spanning the years 1999–2022. Every two years, HRS surveys about 20,000 Americans on their employment status, emotions, cognition, health outcomes, and social connections (RAND 2023).

This chapter uses an event-study design that examines how workers' well-being changes vis-à-vis two distinct types of job separations: unemployment and retirement. These separations offer complementary insights—unemployment is typically involuntary and temporary, while retirement is usually planned and permanent. This allows researchers to disentangle the effects of unexpected job losses from those of anticipated workforce exits, providing a more nuanced understanding of how work shapes human welfare.

Specifically, the chapter tracks two key outcomes that capture some of the latent benefits of work discussed above: depression (measured on a validated eight-point CES-D scale) and self-reported loneliness (0–1 scale).[1] The original analysis here is complemented by findings from the broader economics literature, particularly studies that leverage natural experiments to identify causal effects.

Work Extends Life and Improves Health

Perhaps no finding challenges economists' assumptions about work's value more starkly than its effect on mortality. If work were merely a source of stress to be escaped, one would expect job separation to improve health outcomes and reduce mortality. The evidence shows precisely the opposite.

Workers displaced through mass layoffs experience 50–100 percent higher mortality rates in subsequent years, shortening life expectancy by 1 to 1.5 years on average (Sullivan and von Wachter 2009). Given standard estimates of the value of a statistical life from the U.S. Department of Health and Human Services (DHS 2025), the reduction in life expectancy costs about

[1] CES-D stands for the Center for Epidemiologic Studies Depression Scale, which is one of the most common self-reported measures of depressive symptoms used in the general population.

$300,000–$500,000.[2] These are not workers who lost jobs due to poor health or performance; they were displaced through plant closures and downsizing that had nothing to do with individual circumstances. The excess deaths span multiple causes—strokes, heart attacks, accidents, suicide, and complications from substance abuse—suggesting that job loss triggers a cascade of physical and mental health deterioration (Eliason and Storrie 2009; Browning and Heinesen 2012). These studies, which are from Sweden and Denmark—countries with government healthcare—demonstrate that the health consequences of job loss operate through psychological and social pathways rather than simply through the loss of medical access.

The most compelling evidence that these effects transcend income loss comes from retirement. Fitzpatrick and Moore (2018) exploit the sharp discontinuity in retirement timing at age 62, when Social Security eligibility begins. Roughly one-third of Americans retire precisely at this threshold. This age-based threshold creates a natural experiment, since retirement timing is driven by policy rather than individual health status. Despite having their income partially replaced through Social Security, these new retirees experience an immediate 2 percent increase in mortality risk—implying that retirement itself increases mortality risk by about 6 percent for those who choose it. The effect is particularly pronounced for men, who may especially derive their identity from work.

These mortality costs are so substantial that Blanchflower and Oswald (2004) calculate that displaced workers would need compensation equal to two full years of income to offset just the mortality risk of unemployment—before accounting for any other welfare losses. Quantitatively, this aligns with the evidence from Sullivan and von Wachter (2009).

The health consequences of job separation extend beyond mortality to physical health more broadly. While many facets of health are hard to measure, studies have shown that work causally reduces obesity risk, which affects future work prospects. Using retirement age thresholds as a natural experiment, researchers found that early retirement increased the probability of becoming obese by 12 percentage points among men within two to four years (Godard 2016). This weight gain then creates a vicious cycle, since a higher Body Mass Index increases the odds of nonemployment arising from poor health (Campbell et al. 2021). Thus, employment today supports the health that allows employment tomorrow. Finally, the poor health brought on by unemployment increases future medical expenses. The magnitude of these medical expenses is substantial: the obese incur medical expenses exactly twice those of the nonobese—an additional $2,505 per person annually (Cawley et al. 2021). Thus, employment that prevents obesity generates significant downstream work capacity and

[2] HHS (2025) estimates that the value per statistical life is $13.6 million. Assuming there are 40 years remaining at layoff, a reduction in life expectancy of 1–1.5 years corresponds to a cost of about $300,000–$500,000.

healthcare savings, whether borne privately or by the taxpayer through public insurance programs.

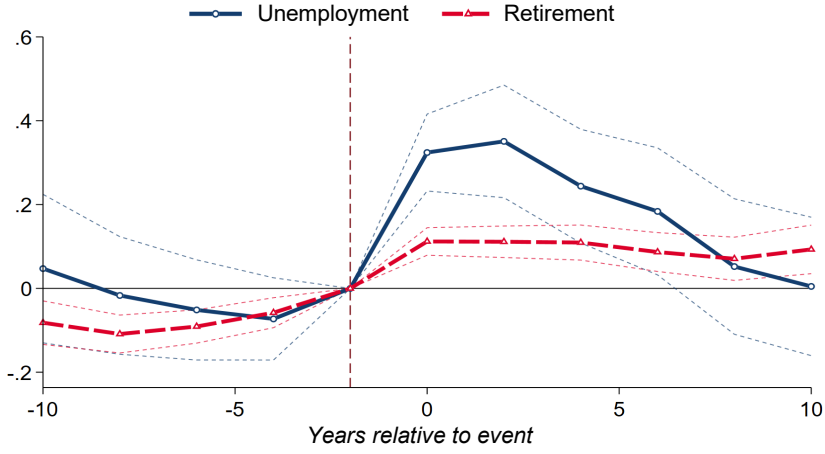
Work Makes People Happy

Beyond its effects on physical health, work shapes human emotional well-being in ways that contradict people's stated preferences. People tell themselves that they work for the weekend, yet the evidence suggests that they find more fulfillment in Monday morning than Saturday afternoon.

Csikszentmihalyi and LeFevre's (1989) pioneering study revealed this paradox elegantly. Using experience sampling methodology—giving subjects beepers that prompted them to record their activities and feelings at random moments—they found that people reported higher levels of happiness, engagement, and energy while working than during their leisure time. This finding challenges classical economic theory, which treats labor as "disutility"—a cost paid in lost leisure to obtain income. Despite the common cultural narrative that frames work as drudgery, people appear to derive deep satisfaction from productive effort and the structure it provides.

The CEA's analysis of HRS data confirms that job separation diminishes emotional well-being. Figure 9-1 tracks depression scores (measured on an eight-point CES-D scale) before and after job transitions. The figure compares the dynamics of the depression index for those leaving employment with that of workers who remained employed, so positive numbers represent depression arising from nonemployment. The patterns are striking: unemployment

Figure 9-1. Index of Depression Scores (on an Eight-Point CES-D Scale) Before and After Job Transitions



Sources: RAND (2023); CEA calculations.
Note: The solid red line plots the outcome dynamics for unemployment events; the dashed black line plots the dynamics for retirement events. Higher scores on the CES-D scale suggest more depressive symptoms.

triggers an immediate increase in depression that persists for at least six years. Retirement follows a different trajectory—depression increases gradually but steadily, suggesting a slow erosion of well-being rather than acute distress. Most tellingly, depression begins rising even before retirement occurs, indicating that workers may intuitively understand they will miss something important about work, even as they anticipate freedom from its demands.

The effect of job separation on depression translates into significant welfare costs. The CEA estimates these costs using the compensating variation method from Buason and colleagues (2021), which represents how much money the average person would need to fully offset the depression they would experience after retirement or unemployment. Bauson and colleagues find that diagnosed depression and anxiety costs about $60,300 a year in lost welfare. The analysis here maps the continuous 0–8 depression scale to their binary indicator by assuming that diagnosed depression corresponds to the clinical threshold of 4, which is 2.5 points above the sample mean of 1.5. Each point therefore costs about $24,500 in welfare a year, so unemployment's peak effect of 0.35 point costs about $8,500 a year. Using a discount rate of 3 percent, the present value cost of nonemployment is roughly $51,000. By contrast, the more persistent and stable effect of retirement on depression has a present value cost of about $23,000.

Research on unemployment duration reinforces the pattern of divergent trajectories and costs between unemployment and retirement. Research on unemployment duration reinforces this pattern. Bayer and Juessen (2015) demonstrate that short unemployment spells have minimal effects on well-being, while persistent joblessness drives significant unhappiness. This suggests that the psychological benefits of work operate through multiple channels—not just the act of working, but also the security of knowing you will have work. Krueger and Mueller (2012) reinforce this interpretation, documenting how laid-off workers experience not just depression but also an explicit sense of meaninglessness.

The implication for policy is clear: rapid reemployment, made possible by flexible labor markets that allow quick matching between workers and jobs, should be a priority. Studies show that by reducing institutional rigidities that act as a tax and deterrent on hiring, more flexible labor markets shorten the duration of unemployment spells (Lazear 1990; Nickell 1997; Autor, Kerr, and Kugler 2007; Price 2025). This is essential not just for economic reasons but also because extended separation from work corrodes psychological well-being in ways that income support alone cannot address.

Work Builds Skill and Preserves Cognitive Function

The sense of purpose and engagement that work provides is deeply connected to its role as a continuous engine of personal development. The modern

workplace demands constant adaptation—new software, evolving best practices, shifting market demands. Workers meet these challenges not usually through formal training but by daily problem-solving alongside colleagues. This learning-by-doing, which is nearly invisible when it occurs, becomes painfully apparent only in its absence (Arrow 1962).

Bessen (2016) documents how workers master new technologies, primarily through on-the-job experimentation rather than formal education. Similarly, Jarosch, Oberfield, and Rossi-Hansberg (2021) show that workers learn substantially from their peers, with an increase in coworker quality raising own wages by 2 to 3 percent permanently of 1 standard deviation. These knowledge spillovers happen through informal channels—watching a colleague handle a difficult client, debugging code together, sharing Excel shortcuts across workstations. The cumulative returns from this workplace learning are substantial and persistent. Consider a young worker in his 20s considering whether to take a gap year after completing his training. One additional year of work experience increases his annual earnings by 3.0 to 3.6 percent throughout the rest of his career (Altonji and Williams 1992). For an average worker earning $60,000 at age 25, this translates into about $86,400 in additional lifetime earnings before retirement—all from a single additional year of early career experience. The workplace functions as an unstructured but irreplaceable quasi-university where learning happens through osmosis and the mother of all: necessity.

When workers are separated from employment, this skill development does not just pause—it reverses. The losses extend beyond technical skills to the core cognitive function itself. A compelling body of research shows that retirement causally accelerates cognitive decline (Rohwedder and Willis 2010). Exploiting sharp differences in country-specific retirement ages, researchers have found that leaving the workforce hastens the decline in memory and verbal fluency (Mazzonna and Peracchi 2012; Bonsang, Adam, and Perelman 2012). One longitudinal study of British civil servants found that verbal memory declined about 38 percent faster after retirement than before it (Xue et al. 2017). This erosion of human capital—both in specific skills and general cognitive function—has lasting financial consequences. Some displaced workers experience lasting wage penalties of 15 to 20 percent even after reemployment (Davis and von Wachter 2011), suggesting that time away from work's learning environment carries permanent costs.

Work, then, provides a form of human capital insurance—not just maintaining existing skills but also continuously building new ones and preserving the core cognitive function through exposure to challenges, technologies, and colleagues. The policy implications of this reality remain consistent: facilitating rapid reemployment preserves not just well-being but also the dynamic skill development and cognitive health that keep workers productive and adaptable.

Work Provides a Webbing of Vital Social Connections

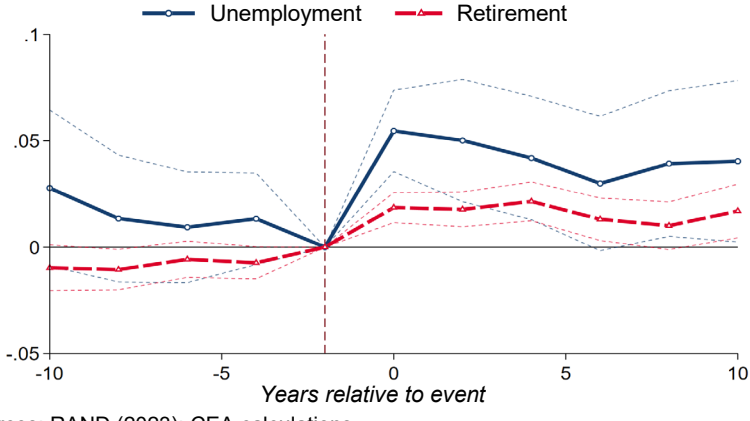
Finally, the benefits of work extend beyond the individual psyche and skill set to the social fabric that binds people together. Work is where people form friendships, find mentors, and build the weak ties that sociologists have long recognized as essential for opportunity and belonging. When work disappears, so does this essential social infrastructure.

The HRS analysis reveals that job separation triggers sustained social isolation. Figure 9-2 tracks self-reported loneliness before and after employment transitions. Unlike depression, which spikes immediately after a job loss, loneliness emerges gradually and persists. Ten years after separation from work, both unemployed and retired workers report significantly higher loneliness than when they were working. The absence of anticipatory effects suggests that workers underestimate how much they will miss the daily interactions, shared purposes, and casual friendships that work provides.

These individual costs ripple outward through communities. When unemployment rises locally, even those who keep their jobs experience decreased well-being—Helliwell and Huang (2014) find the effects equivalent to a 4 percent decline in household income. This spillover reflects the breakdown of social networks: when your colleague loses their job, you lose a colleague. When enough people lose work, the entire community fabric begins to fray.

The social consequences of joblessness extend into people's most intimate relationships. Work shapes not just friendships but also family formation itself. Autor, Dorn, and Hanson (2019) demonstrate that regions hit by

Figure 9-2. Loneliness Before and After Employment Transitions (on a 0–1 Scale)



Sources: RAND (2023); CEA calculations.
Note: The solid red line plots the outcome dynamics for unemployment events; the dashed black line plots the dynamics for retirement events. Loneliness is measured on the De Jong-Gierveld Loneliness Scale normalized to a range of 0 to 1, where a higher score denotes a higher degree of loneliness.

trade-induced job losses experience collapsing marriage markets, particularly for noncollege men whose diminished employment prospects make them less attractive as partners. The results are fewer marriages, more single-parent households, and declining fertility—a cascade of social disconnections that begin with economic displacement.

Taken together, this evidence reveals work as a fundamental organizing principle of social life. The workplace is not just where people earn money but also where they form the relationships that define their communities and families. Policies that treat unemployment as merely an income problem miss this deeper social architecture that work provides.

The Positive Externalities of Employment

The case for employment extends even beyond the well-being of the employed to improve broader social welfare. When workers are employed, they generate benefits for others—improving the well-being of consumers, savers, fellow workers, and the broader public. These positive externalities mean that the social value of employment substantially exceeds the private returns to the worker, making policies that affect employment decisions matters of public as well as private concern.

Employment generates positive externalities for society through four key channels. First, when someone chooses to work, they increase total output in the economy. The goods and services they produce generate a consumer surplus—the difference between what consumers would be willing to pay and what they actually pay. This surplus represents a pure gain for society: consumers enjoy products and services at prices below their maximum willingness to pay, increasing community well-being beyond workers' own earnings.

Second, employed workers contribute tax revenues that fund public goods benefiting society broadly: in infrastructure, law and order, national defense, education, scientific research, and support for the poor. When someone works, rather than collecting disability or unemployment benefits, they shift from being a net recipient of transfers to a net contributor to public goods.

Third, workers create firm value beyond what they capture in wages. Due to labor market frictions such as search costs and monopsony power, workers are typically paid less than their marginal revenue product. Research shows that the gap between worker productivity and compensation represents a surplus that flows to other stakeholders—to retirement savers through equity returns, to coworkers through higher wages, and to customers through improved products (Yeh, Macaluso, and Hershbein 2022; Jäger and Heining 2022).

Fourth, workers make each other more productive through agglomeration effects. Their skills complement one another's—a more experienced colleague helps others solve problems faster, shares institutional knowledge, and sparks innovation through collaboration (Jarosch, Oberfield, and Rossi-Hansberg

2021). Greater labor force participation thus amplifies the productivity of all workers, not just those who are newly employed.

Labor Market Challenges

While the evidence is clear that work is a cornerstone of a flourishing life, several powerful headwinds in the modern economy are making it harder for individuals to find and maintain meaningful employment. The American labor market is beset by a series of interconnected problems: declining labor force participation, demographic stagnation, critical skill shortages, and a struggling human capital pipeline. These challenges not only depress economic output but also prevent millions from realizing the profound nonmonetary benefits of work.

The Participation Problem: Mismatch and Disincentives

A primary concern is the stubbornly low rate of labor force participation, particularly among prime-age men (Krueger 2017; Abraham and Kearney 2020). While participation has recovered somewhat from its post–financial crisis lows, the rate for men age 25 to 54 years remains below its historical peaks. This trend is driven by two primary factors: a growing mismatch between workers' skills and employer needs, and powerful financial disincentives to work embedded in the social safety net (Acemoglu and Autor 2011; Mulligan 2012).

The skills mismatch is a well-documented phenomenon where the abilities of the available workforce do not align with the technical demands of open jobs (Autor et al. 2003; Acemoglu and Autor 2011). As the economy has shifted away from manual labor and toward more cognitive and technical roles, many workers have been left behind. The skills mismatch is not about undereducation or too few college graduates (Cappelli 2014; Beaudry, Green, and Sand 2016). The problem is more subtle—it is which specific skills workers possess that determine their economic value, not their years of schooling. The decline of vocational education and organic apprenticeships has left a void, creating shortages in skilled trades like welding and electrical work even amid broader unemployment, including among young college graduates (Symonds, Schwartz, and Ferguson 2011).

Compounding the skills gap are the severe disincentives created by the welfare system (Moffitt 1992). For decades, welfare has been consistently expanded to a larger class of able-bodied adults, particularly with the passage of the Affordable Care Act, which added tens of millions of able-bodied adults to the free, government-funded health program. This, together with efforts to target aid to the poor, effectively punish them for increasing their earnings with lost benefits (Richardson and Blizard 2022). This can lead to effective marginal tax rates exceeding 100 percent, meaning that a worker can be made worse off by accepting a raise or working more hours (Congressional Budget Office 2015;

llin and Sanchez 2023). This works as a barrier trapping the poor, effectively creating an incentive for them to remain underemployed and disconnected from the ladder of opportunity (Altig et al. 2020).

Beyond these marginal disincentives, a more permanent exit ramp from the labor force has been abuse of the disability program. The number of working-age adults receiving disability benefits has grown dramatically since the 1980s, and this expansion correlates strongly with the decline in prime-age male labor force participation (Autor and Duggan 2003). The lion's share of this growth has been driven by an increase in awards for conditions that are subjective and impossible to verify, such as musculoskeletal disorders (including muscle fatigue, tingling sensations, and muscle tension) and mental health conditions (including being easily fatigued, restless, and difficulty concentrating, along with irritability—criteria many people could meet at the end of any workday) (Morton 2018; Social Security Administration 2023).

Disability benefits can become an attractive alternative to work, especially for those facing poor job prospects or declining wages. But this creates a one-way door: each year, fewer than 1 percent of disability beneficiaries return to employment (Ben-Shalom and Mamun 2015). Beyond the economic loss, this permanently severs people from the social connections, sense of purpose, and psychological benefits that work provides—an isolation that often worsens the very conditions that qualified them for disability in the first place (Fiorillo and Sabatini 2015).

Demographic Decline and the Shrinking Workforce

Looming over these immediate labor market challenges is the country's longer-term demographic crisis. The United States, like most industrial nations, is experiencing a sustained decline in its birthrate, which has fallen well below the replacement level of 2.1 children per woman, at 1.665 (Hamilton, Martin, and Osterman 2023). What this means is that for every 100 Americans there will be 63 grandchildren, creating an inverted demographic pyramid where fewer working age people must support a growing population of retirees, undermining programs like Social Security and creating a self-reinforcing economic decline through low innovation, low production, and high tax burdens. In the absence of increased fertility or a new population of very productive robots, the consequences for the labor market will be serious: severe labor shortages will constrain production and drive up costs across every sector (Bloom, Canning, and Fink 2010; Maestas, Mullen, and Powell 2016).

This trend is driven not only by broad cultural shifts but also by the unintended consequences of well-meaning public policy. For instance, recent research shows that laws mandating the use of child car seats for older children significantly reduce the birthrate for third children, as many standard vehicles cannot safely accommodate three car seats. One study estimated that these

laws prevent thousands of births each year—a stark example of how seemingly unrelated regulations can affect family size (Nickerson and Solomon 2024).

Demographic shifts present fiscal challenges as fewer workers pay into Social Security and Medicare, creating sustainability concerns for these programs (Social Security Board of Trustees 2024). The Trump Administration's One Big Beautiful Bill Act (OBBBA) and deregulation efforts target higher gross domestic product growth to help address these pressures, though innovation could still face headwinds as younger workers become a smaller share of the overall workforce (Jones 2010; Acemoglu, Akcigit, and Celik 2014). Without sustained pro-growth policies, these trends could create fiscal strain as slower economic growth makes existing debt more challenging to manage while age-related spending rises (Gordon 2017).

Critical Shortages and the Faltering Education System

The general problem of the skills mismatch is acutely felt in sectors vital to national security and economic competitiveness. The United States faces severe labor shortages in heavy industry—it lacks a sufficient number of welders and metallurgists for shipbuilding, aerospace engineers for defense programs, and skilled technicians for semiconductor fabrication and pharmaceutical plants (NAM 2021; SIA 2023).

America's dependence on foreign sources is particularly acute in rare earth processing and nuclear engineering, where China dominates global expertise (DOE 2021). Meanwhile, the artificial intelligence and cybersecurity sectors compete globally for a tiny pool of talented specialists, with American universities producing a fraction of the talent needed (NSCAI 2021). Energy infrastructure—from power plant operators to grid engineers—faces a wave of retirements with few trained replacements (CEWD 2022). These are not just employment gaps; they are strategic vulnerabilities whereby workforce shortages translate directly into dependence on adversarial nations for critical capabilities.

These shortages point to a deeper failure in the U.S. systems of education and training. For decades, policy has explicitly and implicitly prioritized four-year university degrees as the sole pathway to success, while devaluing and defunding vocational and technical education (Symonds, Schwartz, and Ferguson 2011). The result is an education system that produces surplus graduates with degrees misaligned from economic needs while failing to train the welders, machinists, and technicians who could actually build semiconductor fabrication plants or maintain nuclear plants. Meanwhile, evidence suggests that K-12 education quality is deteriorating, with stagnant or declining scores in basic literacy and numeracy (NAEP 2022). America is failing to equip the next generation with both the foundational knowledge and the specific skills required

for a modern economy, creating a weak human capital pipeline that is both inefficient and inadequate.

Taken together, these forces create a vicious cycle. A poorly educated workforce exacerbates the skills mismatch, which discourages labor force participation. High effective tax rates for poor people trap them outside the formal labor market, preventing skill accumulation. And the shrinking population ensures that these labor shortages will only intensify over time, threatening the long-term prosperity and social cohesion that would be provided by a healthy labor market.

Labor Market Solutions That Put America First

The interconnected challenges facing the American labor market are complex but not insurmountable. The pragmatic policy agenda of the Trump Administration—focused on removing barriers to work, lowering costs for working families, and strategically investing in human capital—can revitalize the labor market and reconnect more Americans to the profound benefits of work. This section outlines three targeted solutions: strengthening work requirements, deregulating childcare to lower costs, and pioneering return-value funding models for critical fields.

Reestablishing Work as the Center of Social Policy

A foundational step toward addressing low labor force participation is to recenter the social safety net on the principle of work. While providing support for those who truly cannot work remains essential, the current system often traps able-bodied individuals in dependency rather than encouraging employment, contribution, and independence.

Strengthening work requirements to qualify for government assistance has proven effective at moving people into jobs—studies show that work requirements increase both employment rates and long-term earnings while at the same time reducing welfare rolls (Grogger and Karoly 2005; Moffitt 2008). The goal is not to punish but to prevent the safety net from becoming a hammock, ensuring that temporary assistance serves as a bridge back to self-sufficiency rather than a permanent alternative to work, financed by the community of workers.

The economic logic here is straightforward: means-tested benefits inherently discourage work because they provide free benefits that are typically derived from paid work and because each additional dollar earned reduces benefits, sometimes creating effective marginal tax rates exceeding 100 percent (Ilin and Sanchez 2023; Altig et al. 2020). Traditional work requirements address this perverse incentive by making benefits contingent on employment

rather than solely on income, transforming the welfare system from a trap into a springboard (Grogger and Karoly 2005).

The OBBBA has operationalized this principle at scale (U.S. Congress 2025). By establishing 80-hour monthly work requirements for able-bodied Medicaid expansion enrollees and strengthening SNAP work requirements to include adults up to age 64, the legislation affects millions of potential workers. Critically, because SNAP eligibility often serves as the gateway to other programs—automatically qualifying recipients for reduced utility rates, free school lunches, and streamlined Medicaid enrollment—these work requirements create a cascading effect across the entire welfare system. One policy lever moves multiple programs toward encouraging rather than discouraging work.

The most compelling evidence comes from the welfare reforms of the 1990s, which successfully moved millions of Americans from welfare to work by combining time limits with mandatory work, training, or job search activities (Blank 2002). These reforms led to significant increases in employment and, since people gain skills as they work, a rise in their wages over time (Groggins 2003, 2009; Haskins 2007). Applying this principle more broadly—and building on the important work the OBBBA has begun—can nudge individuals back into the labor force and encourage them to continue building skills and climbing the economic ladder. Traditional work requirements effectively draw people back into the labor force and help them progress to self-sufficiency. These successes should be expanded to other welfare programs. For example, expanding the OBBBA's Medicaid work requirements to all able-bodied adults enrolled in Medicaid—not just those enrolled in Medicaid expansion—would help lift those in the parent/caretaker category move out of generational dependency. Additionally, public housing, homelessness assistance, and energy and heating assistance programs do not feature any meaningful community engagement requirements. These are missed opportunities.

A Pro-Family Agenda for a Stronger Workforce

Addressing the high cost and low availability of childcare is a powerful policy lever that can simultaneously address two of the labor market's most pressing challenges: low participation and demographic decline and its cascading effects on social insurance, innovation, and economic growth (Del Boca 2002). For many families, the high cost is a prohibitive barrier to work, particularly for second earners; the average cost of center-based infant care now exceeds in-State college tuition in many States, often consuming 20 to 30 percent of median household income (DOL 2024). These costs simultaneously suppress fertility, with a recent review of pro-natal policies finding that increased childcare availability has "the clearest positive effects on fertility" (Bergsvik, Fauske, and Hart 2020). Studies confirm that expanding childcare access addresses both challenges, increasing labor force participation alongside fertility (Baker,

Gruber, and Milligan 2008; Bauernschuster, Hener, and Rainer 2016). Yet a primary driver of these prohibitive costs is a morass of burdensome and often counterproductive regulations.

Staff-to-child ratios that require one caregiver for each group of 3 children in home-based settings—while allowing commercial centers to operate at 1-to-10 or 1-to-12 ratios—dramatically increase costs without evidence that home-based care is inherently less safe (Gorry and Thomas 2017; Herbst 2023). Similarly, excessive credentialing requirements for providers can limit the supply of caregivers (Hotz and Xiao 2011), driving up prices without necessarily enhancing the quality of care (Gorry and Thomas 2017). By reforming these regulations—such as by allowing more flexible staff ratios, recognizing alternative credentialing pathways, removing zoning rules that prohibit home-based daycare, and removing needless requirements that staff members must have a college degree—States can significantly increase the supply of affordable childcare options. This is not a call for a regulatory race to the bottom but for a smarter regulatory framework that prioritizes safety and affordability, thereby freeing up parents to have children safely cared for while they participate fully in the workforce if they wish.

Beyond childcare, other promising policy levers show significant potential for reversing demographic decline. As examples from research, when housing is made affordable to young people, fertility rises by an extraordinary 33 percent (Fazio et al. 2025)—suggesting that addressing the housing affordability crisis will have profound demographic effects. Similarly, research shows that extending maternity leave increases fertility by 14 to 21 percent (Lalive and Zweimuller 2009; Thomas et al. 2022), indicating that employers can provide support for new parents and encourage family formation. Together with childcare reform, these interventions represent a comprehensive approach to addressing both immediate labor force challenges and the long-term demographic crisis that threatens the American way of life.

Investing in People and Building Capacity in Critical Industries

To address persistent shortages in critical fields—from semiconductor manufacturing to shipbuilding, from rare earth processing to nuclear engineering—the United States needs to invest in human capital with the same strategic focus historically applied to physical capital. The challenge is structural: employers hesitate to fund costly, transferable skills training due to the "hold-up problem"—competitors could simply poach their newly trained workers at a fraction of the cost of traning (Acemoglu and Pischke 1999). Meanwhile, government-funded training programs often lack both the industry connections and market incentives to teach the specific skills employers actually need. The result is a standoff where critical sectors remain understaffed while millions of workers lack pathways to well-paying careers. A successful strategy must bridge this

gap by directing public funds toward proven outcomes while aligning the incentives of students, schools, and industry.

Mandate outcome reporting for training programs. A foundational step is to empower students and workers with clear, comprehensive data on training program outcomes. Today, a young high school graduate trying to decide on a career path navigates largely in the dark. The quality and financial return of similarly named programs vary enormously—median earnings for a "business administration" credential range from $20,900 at one institution to over $100,500 at another (Center on Education and the Workforce 2020).

Yet this critical information remains hidden from the very people who need it most. When students are provided with clear data on graduate outcomes, they consistently choose higher-quality programs, driving improvement across institutions and delivering better returns for students setting the foundations of their working lives (Wiswall and Zafar 2015; Baker et al. 2018; Hurwitz and Smith 2018).

While college-bound students have some access to earnings data through tools like the College Scorecard, those pursuing technical trades and workforce certificates essential to critical industries navigate with far less information. The Trump Administration's TrainingProviderResults.gov was a meaningful step, but its voluntary nature has left it largely empty (DOL 2020). Over 75 percent of eligible programs fail to provide complete records, with 95 percent missing the median earnings data that job seekers need most (Deming et al. 2023). Additionally, this program is limited in nature, as it only covers results for programs funded under the Workforce Innovation and Opportunity Act.

To provide young apprentices with essential information, the CEA suggests making comprehensive data reporting mandatory for all training programs that accept any form of Federal funding. This requirement would be enforced by making eligibility for Federal grants—including funding by the Workforce Innovation and Opportunity Act and Pell Grants—contingent on reporting these core metrics:

- Program completion rates
- Employment rates within 6 months of graduation
- Median earnings at placement and 2 years postcompletion
- Industry placement breakdown (essential for building critical industries)
- Total program cost and average debt incurred

The Department of Labor would establish uniform data definitions and require States to use unemployment insurance wage records for verification, ensuring accuracy and consistency. This mandatory framework would transform portals like TrainingProviderResults.gov into the robust decision-support tools American workers deserve, while directing public funds and human talent toward programs with proven track records of success. Beyond empowering individual choice, this data infrastructure becomes a "master gear"

policy—enabling governments to identify successful programs for retraining the unemployed and displaced, and providing a foundation for other essential improvements.

Support for critical "SHIELD" academic majors. Mandatory reporting provides the data to identify effective programs, but data alone will not solve talent shortages in critical fields. To address this, the CEA proposes a new Strategic Higher Education Investment for Essential Labor Development (SHIELD) program that directly supports students pursuing careers in sectors vital to national security and economic competitiveness. This program builds on the successful SMART grants of the 2000s, which provided stipends to low-income, high-achieving STEM students and increased enrollment in those fields by 17 percent (Denning and Turley 2017). With the United States facing a projected deficit of 2.1 million workers in critical fields by 2030, a more targeted and ambitious intervention is urgently needed (NAM 2021).

The SHIELD grant would provide financial support to high-achieving students (GPA of 3.0 or above) from lower- and middle-income backgrounds who enroll in programs with proven placement rates in critical industries. To ensure accountability, the program could include two key mechanisms:

- *Service commitment:* Recipients who fail to work in a critical industry for at least three years within five years of graduation must repay the grant with interest. This ensures that students will pursue these careers, not just subsidized degrees.
- *Performance-based eligibility:* Grants would only flow to programs at institutions demonstrating high placement rates in critical industries, concentrating resources in the most effective training pipelines.

Using American Community Survey data, this chapter identifies the degree programs that feed the nation's most critical industries—from petroleum and electrical engineering to computer science and materials science. Expanding this analysis to technical and vocational programs requires cross-agency data linking that current systems lack, highlighting another benefit of mandatory outcome reporting. By subsidizing these specific pathways, the SHIELD program would directly address the human capital shortages threatening U.S. economic resilience and national security.

Elevating the treatment of human capital investments in the tax code. A staple of the U.S. Federal tax for decades has been the favorable treatment of capital income in the form of generous deductibility at the front end when an investment is made and lower rates applied at the back end to the income that is eventually generated from such investment. For example, the OBBBA permanently instituted full immediate expensing for equipment and research-and-development investments along with temporary full immediate expensing for the construction of new factories. The economic rationale for this favorable tax treatment is well-established theoretically and empirically: reducing the

tax burden on investment leads to greater capital accumulation, which raises economic growth and wages.

Expensing provisions at the front end and preferential tax rates at the back end are a boon for business investment in physical capital, but of equal or greater importance are investments in human capital, and there are compelling ways to modernize the tax code to treat human capital investment with the same degree of generosity as physical capital investment. While the tax code currently offers credits and deductions for education investments, the size of the credits and deductions can be quite modest and the criteria can be overly restrictive—for example, by only allowing individuals to deduct expenses made to eligible educational institutions. This limitation confers substantial power on accrediting bodies and omits the many forms of valuable human capital investment that are made outside formal higher education institutions. The OBBBA recognized the flaws of this approach when it instituted the new Workforce Pell Grant program, and this same approach could be extended to allow workers to fully expense a broad array of human capital investments in the same way that businesses can fully expense investments in new equipment or research and development. To complement this front-end-favorable treatment of human capital investment, the tax code could also apply a lower tax rate to income gains in the initial year that a worker obtains a higher-paying job or receives a promotion, thereby reducing the penalty on workers who successfully move up to the next rung of the economic ladder.

Conclusion: Reconnecting America with Work

As this chapter has shown, the challenges facing American workers are deeper than mere economic statistics. The nation's workers face a human crisis: millions of citizens are disconnected not just from paychecks but also from the purpose, community, and personal growth that work provides.

Workforce investment is about managing the nation's most important resource: human talent and potential. When the country fails at this task, the costs compound across generations. Today's nonworkers become tomorrow's missing parents, unable to model the dignity of work for their children. They become missing innovators, their talents never developed or applied. They become missing citizens, disconnected from the shared project of building prosperity.

The United States stands at a unique moment of opportunity. The One Big Beautiful Bill Act has established work requirements at scale and created momentum for broader reform. But the window for action is narrowing. The U.S. demographic crisis and its effects become less manageable with each passing year. The evidence presented at the opening of this chapter bears repeating:

work extends life, enhances happiness, builds skills, and weaves the social fabric that binds communities together.

The Trump Administration seeks a vision of America where any person willing to work can find employment that builds their skills, supports their family, and strengthens their community. It is a vision where young people can see clear pathways from education to careers and parents can afford to invest in the next generation. And it is a vision where work gives them the means to live and flourish.