CONTRIBUTED ARTICLE

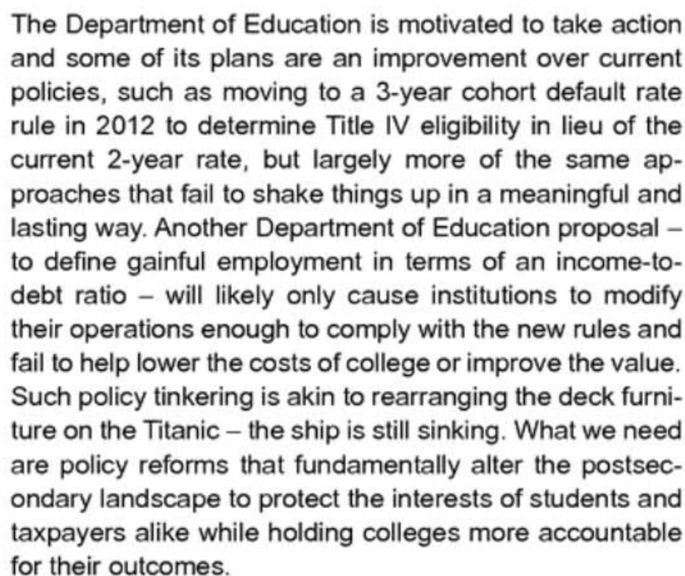
Charting a New Course in Higher Ed Regulation

Scrambled or fried, they're still eggs.

Between 1998 and 2008, enrollment in for-profit postsecondary education grew by 304 percent, an annual rate of nearly 15 percent. Meanwhile, postsecondary education as a whole only grew by 32 percent, or 2.8 percent per year. For-profit institutions not only increased their student market share during that period, but they also increased their share of federal financial aid dollars. The for-profit industry attracted 24 percent of both Pell Grant and Stafford Loan dollars in 2008, increases from 12 and 9 percent, respectively, in 1998.

This tremendous growth has not been welcomed by all with fanfare, as the for-profit sector has more than its fair share of critics in the media, government and non-profit education community. While these critics do have some valid complaints, such as the fact that average student debt and loan default rates are much higher in the for-profit sectors than in the public ones, they often fail to account for the taxpayer-funded subsidies that public institutions receive to help offset the out-of-pocket costs to students and the demographic and socioeconomic status differences of students at the respective institutions. This matter aside, tuition has grown increasingly less affordable, and student debt and default levels have been on the rise for all of postsecondary education. Most of the public now agrees that new policy approaches are needed to reverse these alarming trends.

▶ Daniel L. Bennett | The Center for College Affordability and Productivity



loss, or at least a portion of it. Such a policy would motivate better resource allocation and ensure that colleges are focused on helping students succeed by holding them responsible for offering valuable educational programs at a reasonable price.

Another potential reform would be to mandate that colleges provide prospective students with meaningful information related to program completion, student debt levels and employment outcomes. If a prospective student is interested in becoming a medical assistant, for instance, then recruiting colleges ought to provide him or her with information or topics such as the job placement rate in the field for the school's recent graduates, the income that he or she can expect to earn initially and with a few years' experience, the likely debt that will be incurred in pursuing the program at the school, and the percentage of monthly income that will be required to pay down the student debt. Armed with such data, students could make better consumer decisions and assume responsibility for those decisions. Schools offering programs with high rates of success would attract plenty of students, while those with dismal outcomes would either have to improve dramatically or close up shop. Markets work best when full information is available.

The Department of Education is motivated to take action and some of its plans are an improvement over current policies, such as moving to a 3-year cohort default rate rule in 2012 to determine Title IV eligibility in lieu of the current 2-year rate, but largely more of the same approaches that fail to shake things up in a meaningful and lasting way. Another Department of Education proposal – to define gainful employment in terms of an income-to-debt ratio – will likely only cause institutions to modify their operations enough to comply with the new rules and fail to help lower the costs of college or improve the value. Such policy tinkering is akin to rearranging the deck furniture on the Titanic – the ship is still sinking. What we need are policy reforms that fundamentally alter the postsecondary landscape to protect the interests of students and taxpayers alike while holding colleges more accountable for their outcomes.

In a recent article for Forbes.com ("When Good Loans Go Bad," May 25), I proposed one such innovative policy reform that would make all student loans dischargeable in bankruptcy, but instead of the taxpayers taking the hit when student loans go sour, colleges would absorb the

So how do we accomplish this? Colleges by and large already collect data on program completion rates and student debt, so the challenge would be collecting the employment-related data and ensuring compliance with publicizing the data. The status quo would be a government mandate for colleges to collect and publicize this information themselves. While the responsibility for publicity should fall on the institutions, the collection part does not have to, as government-imposed data collection and reporting contributes to the rising costs of college and is subject to misrepresentation. Instead, we could require that students report their occupations and incomes annually as a condition of borrowing, using either sticks (e.g., impose a fee for failure to comply), carrots (e.g., offer an interest rate deduction for compliance) or a combination of the two as an incentive mechanism. Alternatively, we could link data already reported on IRS income tax filings.

The data could then be compiled by institution and program, provided to the colleges, and publicly distributed for prospective students to consult in making well-informed and responsible postsecondary education decisions. Institutions would be required to display this information prominently in their marketing materials, on their web sites, and before students could officially enroll and pay tuition. A hefty fine could be imposed on schools found to be in violation of the rule, with loss of Title IV eligibility and/or the ability to certify degrees for repeat offenders. Such a mechanism would quickly institute change in school behavior and clear the industry of bad apples, as students would not choose to enroll in programs at colleges with low completion or job placement rates, or where students incur inordinate amounts of debt and earn little in the job market. It would also ensure that taxpayer money is invested in the future workforce wisely.

Radical policy reforms such as the two mentioned above would move us away from an era in which colleges have generally avoided being good stewards of the public dime and increasingly shirk responsibility for providing valuable education to students, and into one in which institutions are focused on adding value to their customers who are provided with enough information to make responsible decisions for their education decisions. The proper role of government regulation is to protect the interests of students and taxpayers in the spirit of promoting competitive markets that provide full information so that good decisions can be made by individuals, not to impose onerous regulatory burdens in which faceless federal bureaucrats prevent quality information from reaching market and, in turn, make those decisions for us. ■

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