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Chairman Owens, Ranking Member Wilson, and Members of the Committee, thank you for the opportunity to testify today.

I am a professor at The George Washington University and I have been conducting research on higher education economics and policy for almost 20 years. I am privileged to teach benefit-cost analysis, economics for public decision-making, and higher education policy in the Trachtenberg School. I am also a faculty research associate of the National Bureau of Economic Research and I co-direct the Postsecondary Equity and Economics Research Project. I have previously served as an editor of *Education Finance and Policy* and as a nonresident senior fellow at the Brookings Institution. I am happy to be here today to describe some of the economics and policy research on value and affordability in higher education.

The Value of a College Education

For most students, getting a college education is one of the best investments they can make. Over a lifetime, the benefits of a college education—typically—far exceed the costs to students and taxpayers. We know this because education economists have measured some of the most important benefits of a college education, such as earnings gains and the increased likelihood of employment. They have also measured benefits to society in the form of additional tax payments, reduced reliance on social safety net programs, reductions in crime, and increased productivity to name a few.[1] Today, the median bachelor's degree recipient earns about $1.2 million over their lifetime—about double the earnings of a high school graduate.[2] About 12 years after graduation a typical bachelor's degree recipient will have earned enough to fully recoup their costs.[3]

But the benefits do not exceed the costs for all students. For some students, the costs exceed the benefits, especially if they do not complete their degrees or if they attend institutions or programs that do not provide them with skills that are valued in the labor market. In some programs, students may end up worse off than they would have been had they never attended college at all. These situations contribute to problems of affordability and losses for taxpayers, as borrowers find it difficult to repay their debt.

If higher education was a well-functioning competitive market, poor-performing institutions and programs would be forced to close as students discover the program's low value. But the reality is that the market for higher education does not operate like other markets. It exhibits several types of market failures that make this scenario unlikely. These market failures make government intervention imperative for protecting students and taxpayers from low-performing programs.

The Problem of Imperfect Information

Among the most important market failures, and the one I will focus on today, is imperfect information. Institutions have more information on school quality, costs, and student outcomes (like graduation rates, net cost, debt, earnings, and employment) than prospective students who are considering whether and where to enroll.

This asymmetric information is compounded by the fact that college education is an experience good. This means that the value of a product (i.e., college) cannot be fully known until after buying it (i.e., enrolling). Students have little way of knowing how well the institution will meet their needs until after they have enrolled—and after they have taken on debt to attend.[4] And unlike most other

products, the benefits of higher education accrue far into the future, making them difficult for students to accurately predict and value.

There are over 5,000 institutions of higher education in the U.S. that receive federal student aid[5] and many others that do not participate in Title IV programs. Each year, roughly 25 million students[6] try to make the best choices they can about whether and where to attend college, what degree to pursue, and which program to enroll in.

Prospective students are confronted with an array of complex choices. Students without a tradition of college-going in their family or community may find these choices particularly challenging if they lack access to reliable sources of information. Research shows that some students make sub-optimal decisions in the application process[7] and even very high-achieving low-income students find it difficult to digest what some economists have called a "mountain of complex information on college costs and attributes" to find the best match.[8] There is also evidence that students can face cognitive overload when deciding whether and how much to borrow.[9] From behavioral economics, we know that individuals are more likely to make sub-optimal decisions when choices are complex and when they make those choices infrequently.[10] Since most students pick a college only once or twice in their lives, they have few opportunities to practice and very little room for a mistake.

Transparency in Higher Education

One market-based approach to solving problems of imperfect information is to simply provide more information to students. This approach is a necessary first step to addressing information issues. Efforts to enhance data availability like the College Scorecard and the College Transparency Act are critically important for improving our understanding of the market and student outcomes. But a growing body of literature shows that information provision alone is not sufficient to protect students and taxpayers in higher education.

For example, in 2015 the Department of Education released the College Scorecard, which included information on student outcomes for virtually every institution that participates in the federal aid programs. One of the primary goals was to help prospective students with college choices by making information on student outcomes easy to access and digest. Economists who studied the causal impact of the Scorecard release, however, found that only some students changed their college application behavior in response. Those students were almost entirely from well-resourced high schools and they were disproportionately white and Asian. The Scorecard elicited no changes in college applications for students in high schools with high shares of low-income students and it had no significant impact on Black or Hispanic students' college choices. These results suggest that information provision alone is not enough to influence the choices of the students who tend to have the least information on college options. Absent other interventions, an information release alone could potentially even have the unintended consequence of widening gaps in college access and attainment by race, ethnicity, and socioeconomic status.[11]

Another study considered the effects of College Affordability and Transparency Center lists on institutional and student behavior. The lists, a requirement established during the last reauthorization of the Higher Education Act in 2008, were intended to inform students and "name and shame" institutions with especially high prices and large tuition increases into lowering their costs. The results were clear: Being included on the list generated virtually no changes in student

enrollment or tuition in subsequent years. The only institutional response appeared to be strategic, as institutions sought to revise their data to avoid being included, rather than lower their prices.[12]

Any information provided by the government must also compete with a vast array of rankings and information provided by countless outside sources whose motivations and methodologies are difficult to ascertain (just Google "best colleges" to see for yourself). It must also compete with information coming from the institutions themselves. For-profit institutions spend, on average, $400 per student on commercial advertising including TV, radio, print, and billboard ads, compared to just $14 spent by public institutions.[13] For-profit institutions also tend to spend their advertising dollars in local areas with high shares of military students and students of color.[14] In the sociology literature, case studies have documented predatory recruitment tactics of for-profit institutions targeted toward low-income students, military students, and students of color[15] and several high-profile lawsuits and investigations have found misleading advertising in the for-profit sector.[16] If the information provided by institutions is misleading or inaccurate, or simply more convincing than objective government-provided information on student outcomes, vulnerable students may unknowingly invest in an education that does not pay off.

While objective government-provided information can help improve imperfect information, when used alone, it is unlikely to solve problems of cost and value. We need a system that holds institutions accountable for student outcomes by enforcing meaningful consequences for poor-performing programs.

The Need for Accountability

In contrast to most other markets, the federal government has access to excellent data on student outcomes by which to measure program or institutional performance, such as completion rates, post-college earnings, debt and repayment, and student loan default. It has more expertise to measure and interpret performance than the average student. It also has the tools and authority to set a minimum standard of value for taxpayer-financed programs. And it has an obligation to protect students and taxpayers from investing in programs and institutions if they do not meet a reasonable minimum bar for performance or value.

First and foremost, the Department of Education's Gainful Employment regulations are critically important for improving accountability in higher education and fulfilling the Higher Education Act's imperative to ensure career-training programs lead to gainful employment. The current proposed rules will provide long-overdue consequences for poor-performing programs based on their graduates' outcomes. The rules would restrict Title IV funding from going to programs with high debt-to-earnings rates or those whose graduates earn less than the average high school graduate in their state. As I have written previously, an earnings premium metric provides a clear, simple, and intuitive framework—and one that is aligned with economic theory—to measure the value of education.[17] Similar approaches have been suggested by other economists.[18]

The data demonstrate that problems of value are most concerning in the for-profit sector: Nearly one-third of certificate programs in the for-profit sector fail GE metrics, compared to just one-percent of programs in community colleges.[19] The Higher Education Act specifically identifies for-profit programs and non-degree programs in other sectors as career-training programs subject to the gainful employment requirement, so it makes sense to start with these. We also know that the

incentives of for-profit colleges are different than in other sectors, where the interests of shareholders often outweigh those of students or taxpayers.

Financial aid-eligible for-profit institutions also tend to be highly reliant on federal funds, creating an incentive to bring as many new students as possible in the door. The latest data show that 473 for-profit institutions received more than three-quarters of their revenue from federal sources, some of them getting hundreds of millions of dollars a year.[20] In contrast to the large incentive to enroll students, however, there is currently very little incentive to ensure their success after enrollment.

Unfortunately, these misaligned incentives affect students who stand to benefit most from higher education. For-profit institutions enroll disproportionate shares of low-income students, students of color, veterans, older working students, and single parents, while typically charging higher tuition, relying more heavily on federal student aid, and generating worse student outcomes than other sectors. My own research using data on over 700,000 certificate students finds that even for students with similar demographics and pre-enrollment earnings, those in for-profit programs make about $2,100 less per year than students attending similar programs in community colleges. My coauthor and I also find that the increased earnings of for-profit certificate students are not enough to offset their debt and interest payments, leaving the average student with a net loss of about $1,200 over their lifetime.[21] It is not just my own research that finds concerning outcomes in this sector. There are about a dozen published studies of for-profit students' labor market outcomes in the economics literature, and the results are remarkably consistent: For-profit students' earnings are lower than—and at best, similar to—the earnings for students in other sectors.[22]

Coupling these earnings outcomes with the much higher tuition and increased debt that student take on, it is not surprising that student loan default rates are highest in the for-profit sector. Over 12 years, more than half of borrowers at for-profit institutions default on their loans, double the rate for borrowers in public two-year programs. And because for-profit students are much more likely to borrow, the default rate among all for-profit entrants is nearly four times that of public two-year entrants.[23] There is a real risk that if students choose the wrong school or program, they aren't just missing out on better opportunities; they could actually end up worse off than they were before enrollment.

How Might Accountability Affect Students and Institutions?

In the last few years, education economists and policy scholars have considered the question of how accountability measures, like the Gainful Employment rules, are likely to affect students and institutions. The evidence suggests that accountability systems that sanction or close colleges, do not reduce college access, but instead cause students to attend better colleges, improving their outcomes.

Research looking at a previous iteration of the Gainful Employment rules suggests that institutions proactively closed poor-performing programs and kept open high-performing programs in advance of potential sanctions.[24] When Cohort Default Rate restrictions were introduced by Congress in the 1990s, about 1,200 mostly for-profit institutions were threatened with the loss federal aid. My coauthors and I show that declines in for-profit enrollment due to these sanctions and closures were almost completely offset by increased enrollment in local public institutions.[25] Our results are consistent with previous evidence that students can and do find programs to fit their needs outside of low-value for-profit programs.[26] We also find that students borrowed less and were less likely to

default on their loans in the years after local for-profit colleges were sanctioned.[27] Our results suggest that student access may be maintained and loan outcomes may improve with similar accountability under Gainful Employment.

In understanding the effects of accountability measures, it is also important to remember that thousands of for-profit institutions offering certificates and non-degree career programs operate in the United States without access to federal student aid. Counting these non-Title IV providers would double the number of for-profit institutions in the U.S. and increase enrollment counts by about a third. Non-Title IV institutions also tend to charge lower tuition than nearly identical programs that participate in Title IV. In dollar terms, the average tuition difference is roughly equal to the value of a Pell Grant, suggesting that in the for-profit sector, institutions may raise tuition to capture taxpayer-financed aid.[28]

Under Gainful Employment regulations, the low earnings and high debt of many cosmetology programs make them more likely to fail than programs in other fields of study. Research shows that this is unlikely to be due to underreporting of tipped income[29] or student demographics,[30] but rather due to extremely high number of hours required for licensing combined with poor labor market outcomes.[31] In fact, the majority of cosmetology schools in the U.S. operate without access to federal financial aid – and graduates of those schools pass state licensure exams at similar rates, for a much lower price.[32]

In other fields, concerns that program closures will limit access to higher education options are similarly unfounded. Half of students in programs that fail GE metrics will find a program in the same broad field and credential level within the same institution, and more than 90 percent have at least one better-value option with access to federal aid in the same geographic area.[33]

Appropriate Accountability for All Programs

Although poor student outcomes are concentrated in the for-profit sector, they are not confined to it. Higher education in the U.S. is notable for its wide range of institutions, degrees, and programs. Accountability policy should be appropriately designed to address the risks of different types of programs.

In particular, new accountability tools may be needed to separately assess performance in online programs. We have seen an incredible rise in online learning. In 2019 (just prior to the pandemic) about 18 percent of students were pursuing postsecondary education exclusively online, up from just 2 percent in 2008;[34] and I expect that this figure has increased further since the pandemic.

Most studies show that students perform worse in virtual courses and programs relative to in-person instruction, all else equal.[35] Yet, in most government data that I am aware of, online programs are not separately identified from in-person programs in the same field, making it difficult for students to judge the quality of the online version of the program they are enrolling in.

Nowhere is this problem more evident than in debates over Online Program Management companies, or OPMs. OPMs are for-profit companies that run online programs within non-profit or public institutions, using the name of the non-profit or public institution. Again, we see imperfect information in this market: Students often have no idea that the named institution is not actually providing all or most of their education. Because of a loophole in the Education Department's guidance that runs counter to the incentive compensation ban that Congress put in place, OPMs that

bundle their services are permitted to share in the revenue from these programs. This revenue-sharing model generates an incentive to enroll as many students as possible. In some cases, OPMs are alleged to have used aggressive recruiting tactics in an effort to draw in more students.[36] Add to this the fact that students pursuing online learning are likely to experience worse outcomes than they would in-person, and that OPMs often operate graduate programs that are eligible for generous federal loans, and the severity of the problem becomes clear. The Government Accountability Office estimates that there were at least 2,900 OPM-supported educational programs as of 2021, but due to a dearth of data, even the precise number of OPM-run programs is unknown.[37] We need more data, more transparency, and more accountability for these programs.

Expanding Aid to High-Performing Programs

Just as policymakers should take away access to Title IV aid for poor-performing programs, they must also be cautious to avoid expanding aid to low-value programs. The Pell Grant is one of the most important tools we have to make college affordable, and I know that expansions of the grant to short-term programs are under consideration. Making high-quality short-term programs more affordable is an important goal, but many short-term certificate programs have questionable value. Policymakers must ensure that only the highest-performing short-term programs can access Pell Grants.

Recent research into short-term credentials in Kentucky found that even where there were positive returns to short-term programs, the benefits faded quickly – so students may trade off long-term financial stability for a small, short-term benefit.[38] In my own work, I have looked at outcomes for short-term credential programs (between 300 and 600 clockhours) that are allowed to participate in federal student loan programs, but are currently excluded from Pell Grants.[39] More than half of these programs had graduates with earnings below $25,000 per year (or about the average earnings of a high school graduate). Ninety-six percent of those low-earning programs were in the for-profit sector.

To extend Pell Grants to short-term programs is a risk—and that risk increases exponentially if the expansion of grant aid includes programs in the for-profit sector. In this sector, as I have mentioned, access to the Pell Grant may incentivize schools to raise tuition,[40] ultimately wasting taxpayer dollars, and increasing the chances that students invest their time and money in an education that does not pay off.

Conclusion

Over the last two decades, a growing body of economic and policy research has generated new quantitative evidence on value and affordability in the market for higher education. Unlike other markets, the market for higher education exhibits imperfect information and college choice is a complex decision. The federal student aid system today creates enormous incentives for institutions to bring students in the door, but little incentive to ensure their success after enrollment. Policies aiming to improve outcomes by simply providing information on a government website or identifying institutions on a watchlist, while a reasonable first step, are unlikely on their own to reach the students who would benefit from them the most and will do little to reduce racial, ethnic, and socioeconomic inequities in higher education. The federal government has the authority and the tools at its disposal to require that institutions provide a minimum value to students or face the loss of Title IV dollars. It can also ensure that any expansions of aid are limited only to high-performing

programs. Research has shown where the problems are concentrated, how students and institutions may be affected by various policy options, and even which metrics might be most effective in measuring value. I am grateful for the opportunity to share this research with you, and I hope it will help with your efforts to ensure value in higher education for students and taxpayers. Thank you and I look forward to your questions.

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