Summary of Written Testimony Submitted by Anthony P. Carnevale
Director, The Georgetown University Center on Education and the Workforce

Before
The Sub-Committee on Higher Education and Workforce Training
and
The Sub-Committee on Regulatory Affairs, Stimulus Oversight, and Government Reform

July 8, 2011

Good Morning. Madam Chairman and esteemed Members of the Sub-Committees, thank you for the opportunity to speak with you today about the gainful employment rule.

I am the Director of the Georgetown University Center on Education and the Workforce, a non-partisan, independent public policy think tank at Georgetown University that focuses on higher education policy from a workforce perspective. Our mission is to research the connections between education, career qualifications, and workforce demands.

In all our research, we find the for-profit sector of higher education has a positive impact on the higher education community. It has grown quickly and nimbly at a time when postsecondary education and training has become absolutely essential to achieving and maintaining middle class status. For-profit institutions are flexible, responsive, and provide an excellent model for faster, more efficient, student-oriented education. Indeed, competition from the for-profit sector has already led to improvements in the public and not-for-profit sectors. In sum, the overall performance of the for-profit colleges is admirable and is clearly responding to demand for more capacity in our postsecondary system.

However, growing pains have produced a minority of non-performing programs that have tarnished the reputation of the entire industry. Both anecdotes and empirical evidence have emerged that some students are getting training for jobs that do not exist, or are engaging in job training when the costs are not justified by any economic analysis of wages. The anecdotes are either glowingly positive or scathingly negative, but the data are sobering: although for-profit colleges enroll about 13 percent of all students, they represent 48 percent of all defaulters. The result has been a waste of taxpayer money that could be better spent in the interest of both the country and the students themselves.

Defaults on federal student aid directly cost the taxpayer a billion dollars annually. Indirectly, the real cost is much higher—in the form of lost earnings to individuals, and ultimately, lost

productivity in the economy. We have determined the annual cost of default at all institutions, in terms of lost earnings to an individual from a lifetime of work, to be $61 billion; $24 billion of these losses in economic output are attributable to the for-profit sector.

Although the taxpayer suffers from these losses, the impact of default is felt most profoundly by the students who lose a viable opportunity to join or stay in the middle class, and who will be hounded by the federal government for repayment throughout their working lives. It makes their lives more difficult, ruins their credit and makes it tougher for them to buy a house or a car. Allowing a minority of non-performing programs to continue is not in anyone's interest—not the for-profit industry, not the students, and not the taxpayer.

As has often been pointed out, the worst effects of default reverberate throughout the low-income and minority student communities. The data show that non-performing programs take the lion's share of responsibility for these defaults. The principal cause of default, in other words, has little to do with student characteristics such as their low-income and/or minority status. The primary cause of default is linked to the inability of programs to leverage sufficient earnings-improvements, not student characteristics.

The gainful employment rule is not a job-killer. Institutions are free to allocate their money from non-performing programs to new and higher-performing programs, as indeed, prior experience and economic theory predicts that they will. If anything, this regulation improves the labor market, protecting the value of credentials in the market by steering students to proven programs.

In reality, the primary effect of the gainful employment rule will not be shuttering programs. The Department of Education has capped program ineligibility at 5 percent, although they estimate that only 2 percent of programs will become ineligible. The Department's accommodation and modifications in the final rule points towards the fact that the gainful employment rule sets up a process for program improvement, not program elimination. Institutions have multiple chances to meet the measures the Department has set. For example, the Department is now instituting a three strikes and you're out policy, not one and done. These process improvements in the final rule will ensure that for-profits can continue to be on the cutting edge of innovation in higher education.

The rule reflects a preference for disclosure and preserving healthy market competition. The regulation will make markets work better by providing consumer information for both students and institutions while preserving competition. Greater market efficiency will be a boon to both taxpayers and students, not to mention to the for-profit sector itself.

Given limited funds and future stringent budgets, we are going to need to learn—together—how to build programs that work. The gainful employment rule is a much-needed step towards that goal.

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I am the Director of the Georgetown University Center on Education and the Workforce, a non-partisan, independent public policy think tank at Georgetown University that focuses on higher education policy from a workforce perspective. Our mission is to research the connections between education, career qualifications, and workforce demands. We aim to promote equity and efficiency in postsecondary education and more tightly link education and labor markets.

This is no longer our grandparents' economy, where persistence enabled those willing to work hard the chance for economic stability. Postsecondary education has effectively become the nation's workforce training and development system, and is increasingly the arbiter of economic success and mobility in our society. Today, access to the middle class is contingent upon access to (and successful completion of) postsecondary education and training. The data are unequivocal about this point—and into the future, the trend will continue. By 2018, 63 percent of all jobs in the U.S. will require some form of postsecondary education or training, and the fastest-growing sectors of the economy are those that require postsecondary education.

Students and parents have recognized this new reality, and the result has been an incredible surge in the demand for all kinds of postsecondary education and training. There have been record enrollments across all institutions of higher education. Unfortunately, there has not been a concomitant growth in the availability of information that students need to help them make good choices about what kind of education and training they need, and for what kinds of jobs. The dizzying array of postsecondary education and training providers has made the task for consumers much more difficult. The higher education market has become increasingly complicated and difficult to navigate.

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Although most people know that the earnings potential of a Bachelor's degree-holder is much greater than the earnings potential for a high school graduate—in fact, it is 84 percent over a lifetime—they may not be aware the role that actual program of study plays in determining earnings. For example, even among Bachelor's-degree holders, the difference in earnings by major can be as much as 314 percent. Likewise, someone earning an Associate's degree or certificate in engineering will earn far more than someone who earns the same credential in criminal justice or cosmetology—and we believe that people deserve to know what exactly that difference is, even if it doesn't change their eventual choice, because it will affect the way that they live the rest of their lives.

The public and non-profit sectors have been unable to accommodate the demand for postsecondary education, and the result has been the breakneck expansion of the for-profit sector. The for-profit sector has many strengths and is a necessary component of a functional higher education system. It has been wildly successful in enrolling non-traditional students, especially older students, minorities, and hard-to-serve students. Moreover, the for-profit sector has proven adept at creating and refining a model of postsecondary education that works for students, offering flexibility not found in other sectors. The sector also provides much-needed added capacity at a time of limited public funding.

These strengths should not, however, conceal the sector's manifest weaknesses. A few bad programs have unjustly tarnished the reputation of the entire industry. Still, the for-profit sector consistently has much lower graduation rates than other sectors—even when serving the same types of students. For example, at four-year public institutions, 65 percent of students had obtained any credential after six years. At private, non-profit institutions, that number is 70 percent, while at for-profit colleges, only 34 percent of students had obtained *any* credential after six years (Figure 1).

Moreover, for-profit colleges have alarmingly higher default rates than public and not-for-profit institutions. Although the for-profit sector enrolls about 13 percent of all students, they represent 48 percent of all defaulters on federal student loans (Figure 2).

Simply put, in the current budgetary climate, we can't afford the system we have now. Defaults on federal student aid directly cost the taxpayer a billion dollars annually. Indirectly, the real cost is higher—in the form of lost earnings to individuals, and ultimately lost productivity to the economy. We estimate the annual cost of default at all institutions in terms of lost lifetime earnings to be $61 billion. Of this, $24 billion of these losses are attributable to the for-profit sector.[1]

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[1] We calculated this number by assuming that all defaulters (from all institutions) either did not graduate or did not translate their degree into a successful labor market outcome. Hence, the individual cost in terms of lost earnings of the default is the difference between their lifetime earnings at the level they did not obtain and the lifetime earnings of the level of educational attainment below that (using the lifetime earnings figures in the forthcoming Center report, *The College Payoff*. The default numbers come from an analysis by Mark Kantrowitz of FinAid.org "Default

In addition to the costs of an unrealized future, many students are faced with a grim present reality: paying back unmanageable debt without having a decent job. Although the taxpayer suffers from these losses, the impact of default is felt most profoundly by the students who lose a viable opportunity to join or stay in the middle class and who will be hounded by the federal government for repayment throughout their working lives. It makes their lives more difficult, ruining their credit and making it tougher for them to buy a house or a car. Allowing a minority of non-performing programs to continue is not in anyone's interest—not the for-profit industry, not the students, and not the taxpayer.

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Enforcing greater efficiency in our postsecondary system will benefit the entire postsecondary system. The gainful employment rule strikes a balance in correcting these inefficiencies as much as possible while still maintaining student choice and the autonomy traditionally granted to institutions in our higher education system.

The gainful employment rule is not a job-killer. Institutions are free to allocate their money from non-performing programs to new and higher-performing programs, as indeed, prior experience and economic theory predicts that they will. If anything, this regulation improves the labor market, protecting the value of credentials in the market by steering students to proven programs.

Instead of being primarily punitive, the effect of the regulation will be to improve programs. The Department has come a long way from its initial proposed rule.

In reality, the primary effect of the gainful employment rule will not be shuttering programs. The Department of Education has capped program ineligibility at 5 percent, although they estimate that only 2 percent of programs will become ineligible.

By giving institutions many options on how to meet gainful employment standards and by instituting a three-strikes-in-four-years-and-you're-out policy instead of a one-and-done rule, the Department's data demonstrates that its rule is not about shutting down programs, but about improving them. The new rule has also given programs more time to come into compliance; instead of ineligibility beginning in 2012, as originally proposed, programs will not become ineligible until 2015. What's more, the Department also re-defined debt 'repayment' in a more lenient—and appropriate—way. In addition to other changes, the Department also attempts only

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Rates by Institution Level vs. Degree Program." This report uses the National Postsecondary Student Aid Study (NPSAS) as its data-set.

to account for what an institution can control by only considering debt from tuition and fees, and not all student debt, which may be related to living and other expenses not in the control of the institution.

Further, the rule reflects a preference for disclosure and preserving healthy market competition rather than punishment. The regulation will make markets work better by providing consumer information for both students and institutions while preserving competition. Greater market efficiency will be a boon to both taxpayers and students, not to mention to the for-profit sector itself.

The Department has moved one step closer to a more comprehensive information system by mandating full disclosure about program costs, loan repayment rates, completion and placement rates, debt measures, and other key information for all institutions, not only those that are in danger of becoming ineligible. Having this information available allows students to participate as more informed consumers in the higher education marketplace. It will allow the system to prevent problems before they occur. The disclosure aspect of the rule helps preserve a healthy competition between the increasing numbers of institutions and programs entering the market.

Good information systems that link education and careers will not eliminate, but would minimize, the future need for aggressive federal oversight or expensive, additional state-level regulation. Such a system, which is also currently under various stages of development at the state level, will save the taxpayer money, not just in terms of reduced regulatory burden, but also in terms of lower student loan default rates. Better information prevents failure and in this case, an additional ounce of prevention is surely less onerous than another pound of the regulatory cure.

Thank you very much for your time this morning. I am happy to answer any questions the Members may have.

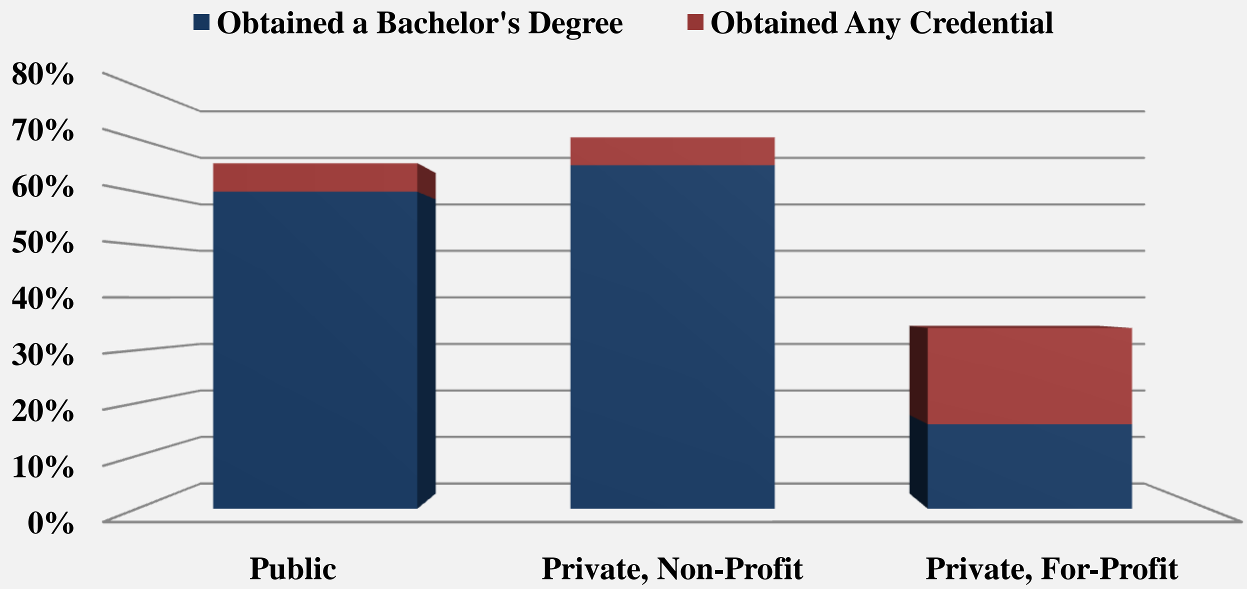
Figure 1: Six-Year Completion Rate at Four-Year Institutions
Obtained a Bachelor's Degree
Obtained Any Credential
80%
70%
60%
50%
40%
30%
20%
10%
0%
Public
Private, Non-Profit
Private, For-Profit

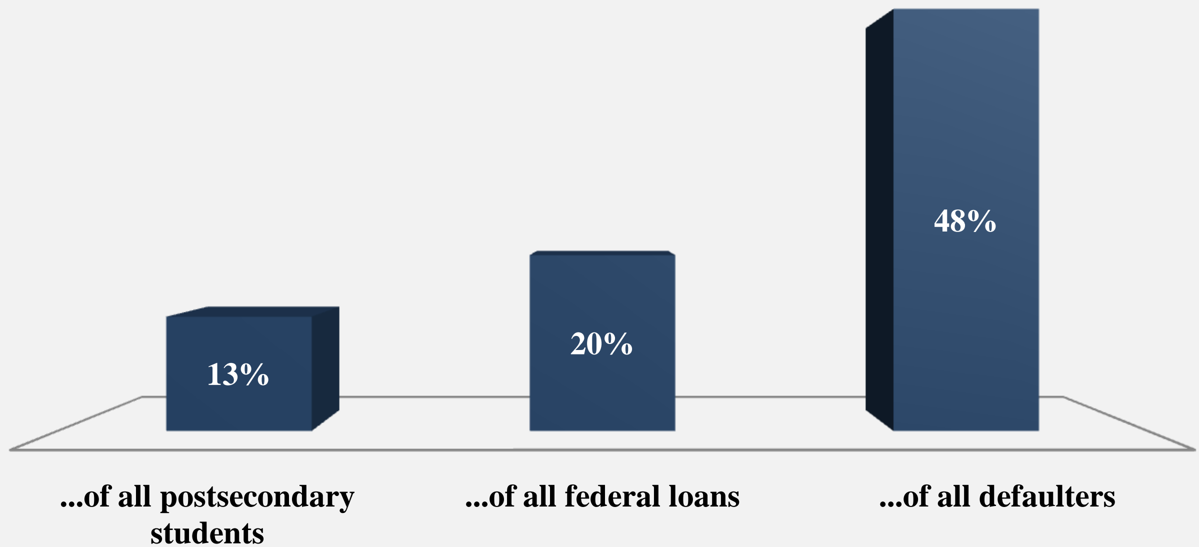
Figure 2: The For-Profit Sector is...
13%
20%
48%
...of all postsecondary students
...of all federal loans
...of all defaulters

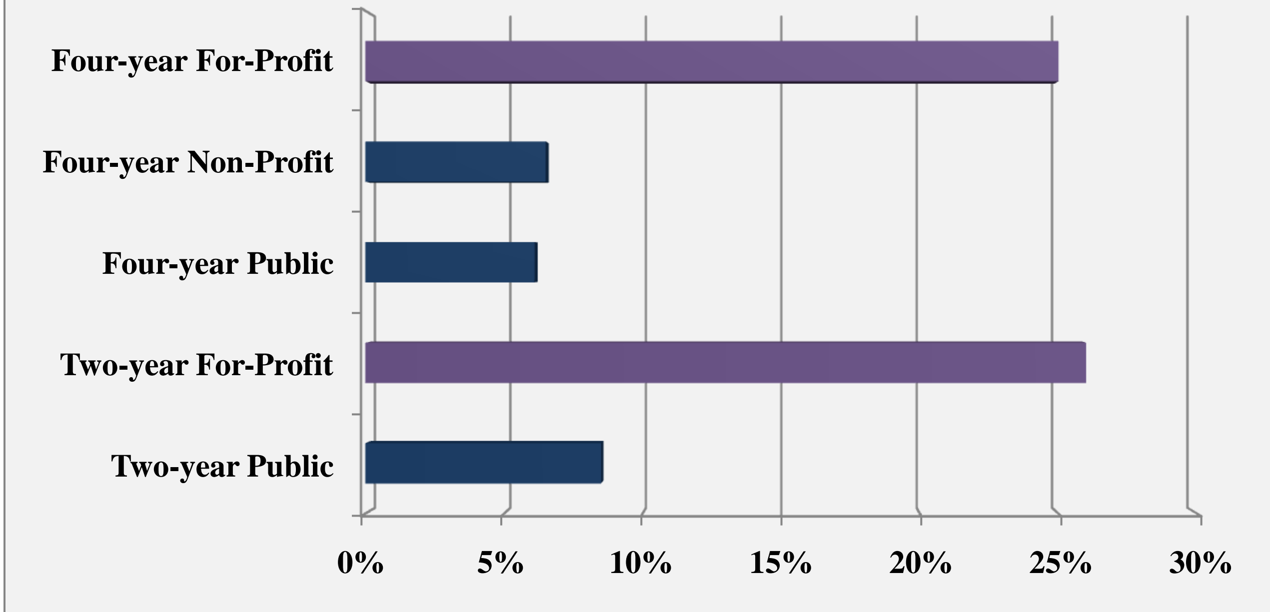
Figure 3: Default Rate by Institution Type
Four-year For-Profit
Four-year Non-Profit
Four-year Public
Two-year For-Profit
Two-year Public
0%
5%
10%
15%
20%
25%
30%