Good morning Chairman Owens, Ranking Member Wilson, and distinguished members of the Committee. Thank you for giving me the opportunity to speak on the topic of "Lowering Costs and Increasing Value for Students, Institutions, and Taxpayers" in higher education.

My name is Michael Horn. I'm the cofounder of the Clayton Christensen Institute, a nonprofit think tank; the author or co-editor of six books on education; and I teach part time at the Harvard Graduate School of Education.

In our current system of higher education, we pay for what we get. Because the government underwrites significant portions of the higher education system, it means that students and families are not the only "customers" of colleges and universities. Taxpayers are as well.

There's a saying in efficient markets for goods and services. The customer is always right. What they demand is ultimately met. If Apple doesn't offer an iPhone that delivers value, customers look elsewhere, and Apple has a choice: improve or wither.

In higher education, what the government—and therefore the taxpayer—is paying for is enrollment of students. Not employment. Not learning. Not life outcomes. Now combine that with four realities:

1) higher education is an experience good—it's hard to understand its value or utility until after it's been used;
2) the price of colleges and universities to individual students is opaque, as the actual price is often not revealed until after admission. What's more, the price charged generally changes from year to year;
3) the money from the federal government often has the feeling of being free to the student—the repayment terms for loans, for example, feel far off in what students assume will be a brighter future—and schools often use loans to imply that the price of the school is lower than it actually is; and
4) according to the data we collected for our book *Choosing College*, students attend college for a variety of nuanced reasons, many of which don't pertain directly to economic return.

The result of all this is, simply put, that there are far too few incentives in place for institutions to focus on student outcomes in terms of financial returns, employment, and learning. From the perspective of the taxpayer customer, that lack of focus on ultimate economic value to the student should be unacceptable.

The result is that higher education has long been on an unsustainable cost trajectory. Since 1970, spending by public colleges and universities rose from nearly $104 billion in today's dollars to $420 billion by 2020. Altogether, post-secondary institutions now spend more than $670 billion per year—and for what? Completion rates remain stagnant with nearly 40% of students failing to graduate from 4-year institutions within 6 years; significant outcomes gaps

persist; and nearly 1/3 of all institutions leave their students with zero economic return after accounting for the cost of attendance, according to the Postsecondary Value Commission.

The federal government's answer to this quandary since 1965 has been accreditors—agencies that now play the role of gatekeeper to federal financial aid. But accreditors were not built to play a quality assurance role. They were designed originally as peer-review organizations to determine what is a college and to help institutions improve. They may do that well, but they aren't good at focusing on student outcomes—nor does federal policy incentivize them to do so, as only one of the 10 standards that dictates what accreditors monitor pertains to outcomes. According to the report from the Postsecondary Commission titled "Oversight of Academic Quality and Student Outcomes by Accreditors of US Higher Education," "low graduation rates, high loan default rates, and low median student earnings did not increase the likelihood that an accreditor would take disciplinary action towards a college." What's more, only 11 percent of the 5,195 colleges in the report's sample experienced one or more disciplinary actions related to student outcomes or academic program quality.

Because accreditation is an all-or-nothing game, once you have access to it, you get access to federal dollars. And once you have access to federal dollars, you can enroll students and make them feel like the education is subsidized and significantly less expensive than it ultimately is. Indeed, the instinct to create regulations focused on inputs—how a college or university operates through mechanisms like regulating a school's contracts with third-party entities—instead of its outcomes, only exacerbates this problem.

The regulation of inputs — how a college does its work — only locks institutions into set ways of doing things. It inhibits innovation. It encourages a focus on compliance, not value. And colleges pass the cost of compliance on to students in the form of higher tuition. That's a downward spiral that, as can be seen plainly in the results of higher costs and poor outcomes, has not worked.

Policy should instead focus on student outcomes and empower—yes, free up—schools to figure out the best ways to deliver value for students and taxpayers.

What would a better market look like? For starters, up-front price transparency so students knew what they would pay on the front-end and not have any surprises.

What would better incentives look like? Congress could pass policy to require that colleges share in the risk when student borrowers don't repay what they take out in loans.

That will result in schools and programs like Western Governors University, BYU Idaho, Georgia Tech's online master's of computer science, the Quantic School of Business and Technology, and the University of Illinois' iMBA program that are actually innovative—meaning lower costs and better economic returns to the student.

To be clear: The taxpayer customers of higher education should not tolerate bad college programs—be they online or brick-and-mortar—that offer miserable returns on investment for students.

This should be in the interests of traditional colleges and universities. At a time where their enrollments and reputations are both declining, they should want to be freed from regulatory burden that doesn't support students and reinvigorate themselves by not just offering cheap marketing talk about their value for students, but by aligning their bottom-line interests with those of students. By way of example, witness how traditional liberal-arts colleges like DePauw University in Ohio and Colby College in Maine have created what amount to employment guarantees.

The road ahead can be bright for students, schools, and American society with a focus on outcomes and value, not inputs and empty promises. Thank you for your time today. I am excited that the Committee is taking this topic seriously to lower costs and bolster value for students, institutions, and taxpayers.