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Measuring Post-College Gainful Employment: New Government Rule Makes Sense

SOURCE: AP/Matt York

For-profit colleges, such as the University of Phoenix, are aggressively contesting the Department of Education's regulation for career-education programs known as "gainful employment," waging a fight both in Washington and in the media.

By Julie Margetta Morgan | February 9, 2011

The Department of Education is about to unveil its long-awaited regulation for career-education programs known as "gainful employment." The rule would exclude career-education programs from receiving federal student financial aid if they fail to meet certain debt-to-income and student loan repayment measures.

For-profit colleges are aggressively contesting the regulation, waging a fight both in Washington and in the media. But gainful employment is not only about for-profit colleges such as the University of Phoenix or Kaplan University. And the debate about its contents shouldn't be ruled by for-profit institutions. The gainful-employment regulation is about something much bigger than that. It's about the price of college being so high that individuals have to mortgage their futures to pay for it, and yet we know very little about what they get for their money.

Gainful employment is a response to an emerging issue in higher-education policy. Simply put, we need to get more students into and through college. The workforce of the future requires more Americans with postsecondary education. To achieve this, the federal government must get the most out of its investment in higher education through student financial aid. And with students and families bearing an increasing share of the cost of college, they should be getting something from their investment, too.

The problem is that in our higher-education system, individuals and the federal government bear all of the financial risk of higher education but colleges have most of the control over the price, quality, and outcomes. In essence, colleges are in the driver's seat but students and taxpayers are paying for the gas. This would not be an issue if prices were low and graduation rates high, but in fact

just the opposite is true.

For-profit colleges present a stark example of this problem. The average tuition at a for-profit college is several times greater than at a community college—the relevant alternative for many of their students—and the federal government helps students pay the high price through Pell Grants and student loans. But with 25 percent of for-profit school students defaulting on their loans after three years, mediocre graduation rates, and complaints about aggressive recruitment for programs with low payoff in the job market, policymakers are worried that neither the taxpayer nor the student investment in these programs is worth it.

For students at for-profit colleges, the price of failure is high. Graduating without a credential or unable to get a decent-paying job can leave them unable to climb out of debt. The price is also high for taxpayers who fund the financial aid programs. But for-profit colleges can make up to 90 percent of their revenue from student financial aid and walk away from failing students without any consequence. The exact same is true of public colleges and private not-for-profit institutions, both of which operate under largely the same regulatory scheme. But public and private not-for-profit institutions draw from other sources to subsidize tuition, such as state subsidies and college endowments, so the risk to students and the dependence on federal dollars are less significant.

To make the most out of the federal investment in financial aid and protect students, policymakers need to make institutions accountable for the price of their programs and the education they provide. Since this is uncharted territory for the Department of Education, it makes sense to begin by regulating career-education programs because there is a direct link between the education students pursue and the results they can expect in the job market.

The new gainful-employment rule will hold career-education programs responsible through a simple proposition: A career education program should only receive federal financial assistance if upon graduation, students can earn enough money to pay off the debt they accrue. In short, a program is worth the federal investment only if the price of the education is justified by its outcome (the salary of its graduates).

It seems strange that any college would contest the idea that an education should be worth its price tag, and yet that is exactly what many for-profit colleges have done. For-profit colleges depict the regulation as unfairly taking away access to financial aid, when in fact all it does is ask expensive or poor-performing programs to conform to the needs of their students. Good colleges—ones that are in business to educate students, not simply to take their money—will find innovative ways to offer higher-value educational programs.

A strong gainful-employment rule is only the first step in securing the federal investment in higher education. Next, policymakers need to find a way to hold all education programs accountable for the price they charge and the success or failure of their students. And Congress and the Department of Education should take steps to curb the fraud and misrepresentation at for-profit colleges that is so often mentioned in the gainful-employment context through better enforcement of consumer-protection standards as well as consumer information.

The heated controversy over the gainful-employment rule shows just how difficult it will be to change the federal regulatory system into one where colleges share the responsibility for the cost and outcomes of higher education. But changes like this one are necessary to make sure the competition for federal dollars plays out through finding the best ways to serve students in the classroom rather than the best way to lobby politicians in Washington.

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