FEBRUARY 2019

The case for a strong accountability system for federal postsecondary aid

Adam Looney

The Brookings Institution

B | Economic Studies at BROOKINGS

The Brookings Economic Studies program analyzes current and emerging economic issues facing the United States and the world, focusing on ideas to achieve broad-based economic growth, a strong labor market, sound fiscal and monetary policy, and economic opportunity and social mobility. The research aims to increase understanding of how the economy works and what can be done to make it work better.

ABOUT THE AUTHORS

Adam Looney is the Joseph A. Pechman senior fellow in Economic Studies at Brookings and the Director of the Center on Regulation and Markets. He is also affiliated with the Urban-Brookings Tax Policy Center. Mr. Looney is an expert on U.S. tax policy.

STATEMENT OF INDEPENDENCE

The author did not receive any financial support from any firm or person for this article or from any firm or person with a financial or political interest in this article. They are currently not an officer, director, or board member of any organization with an interest in this article.

ACKNOWLEDGEMENTS

Brookings is committed to quality, independence, and impact in all of its work. Activities supported by its donors reflect this commitment and the analysis and recommendations are solely determined by the scholar.

Support for this publication was generously provided by the Laura and John Arnold Foundation. The views expressed are the authors own and do not reflect the staff or trustees of the Brookings Institution.

This summarizes material from a comment to the Department of Education by Sandra E. Black, University of Texas; Stephanie Reigg Cellini, George Washington University; David J. Deming, Harvard University; Susan Dynarski, University of Michigan; Adam Looney, The Brookings Institution; Jordan Matsudaira, Columbia University; and Jesse Rothstein, University of California, Berkeley.

On August 14, 2018 the Department of Education (DoEd) announced plans to rescind the Obama administration's Gainful Employment (GE) rules, which tied federal funding to education programs' ability to "prepare students for gainful employment in a recognized occupation." In response, several prominent economists (including Sandra Black of the University of Texas; Stephanie Riegg Cellini of George Washington University; David J. Deming of the Harvard Kennedy School; Susan Dynarski of the University of Michigan; Jordan Matsudaira of Columbia University; and Jesse Rothstein of the University of California, Berkeley) and I submitted a comment to the Department describing the need for and benefits of a strong accountability framework for federal financial aid. We argued that a strong accountability system is necessary to protect the investments federal taxpayers make in students and that the Department's proposal ignores a large and growing body of evidence documenting the poor employment and financial outcomes that many students experience after enrolling at certain programs.

In our comment, we made several arguments about the value of a strong accountability system based on high-quality research studies—providing full citations to the evidence we draw from. In our review of the literature, we highlighted several areas of consensus that are described more completely in this document:

1. Large numbers of students enroll in occupational programs and leave with low earnings and loans that they cannot repay.

2. An effective sanction regime would disproportionately affect for-profit programs that contribute most to problems student borrowers face—but not because of the characteristics of the students they serve.

3. Regulations based on appropriate and robust measures of student outcomes, like debt, earnings, or repayment can help address the problems plaguing federally-supported students.

4. Strong accountability systems improve economic outcomes of students by limiting access to low-quality, low-performing institutions, and redirecting students to better-performing institutions.

5. Information disclosures, while important and necessary to the implementation of accountability systems, are insufficient to address the problems federal aid recipients face.

Our overarching conclusion was that the existing accountability system, including the 2014 GE rules, is likely to be superior to alternate regimes currently under consideration and would improve outcomes for students.

The challenges many students face, including the rising burden of tuition costs and loan burdens, are not going to go away by themselves. To address these challenges, we need a reinvigorated accountability framework for federal student aid. The evidence discussed in the remainder of this document highlight two elements that are required for an effective accountability framework. First, the framework should have a strong sanction regime in which poor-performing programs or institutions lose eligibility to participate in Title IV student aid programs. Second, it should require that institutions actively disclose student outcomes in a way that insures that students receive the information prior to enrolling into a program or entering into financial aid commitments.

1) **Accountability systems are necessary to address the fact that large numbers of students enroll in educational programs that lead to low earnings and loans that they cannot repay.**

Forty-two million student borrowers collectively owe more than $1.4 trillion to the federal government for their student loans. In the past decade, there has been a dramatic increase in the number of American student-loan borrowers leaving college with high debt and low earnings. This combination results in unsustainable debt burdens that impose substantial costs on students and on federal taxpayers. According to estimates by Judith Scott-Clayton (2018a), nearly 40 percent of borrowers leaving school in 2004 may default on their student loans by 2023. When student loan borrowers default—as nearly 1.2 million direct loan borrowers did in 2016[1]—the consequences are particularly severe because of collection costs, credit reporting, tax refund offsets, wage garnishment, and ineligibility for future aid. While recent cohorts of borrowers are defaulting at lower rates than at the peak of the recession, repayment rates remain low and the overall delinquency rate on student loans remains high (Looney and Yannelis 2015; Federal Reserve Bank of New York, 2018). Many of these loans will never be repaid, leading the federal government and ordinary taxpayers to bear the burden of these costs.

Today's student loan crisis mirrors an earlier crisis that occurred in the late 1980s, after eligibility for federal student loans was extended to a broader array of students and institutions with little oversight or accountability. These changes led to a large influx of institutions participating in the federal loan program in the early 1980s, many of which were for-profit institutions and other institutions with high default rates (Gladieux 1995). For instance, after the creation of the Supplemental Loans to Students (SLS) program in 1986—a program that expanded loan eligibility to older, non-traditional borrowers—the share of SLS borrowers at for-profit schools increased from 8 percent in 1986, to 50 percent in 1987, and to more than 61 percent in 1988. (US Senate 1991.) The associated increase in the volume of the loan program, a dramatic increase in loan defaults, and reports of waste, fraud and abuse within the system prompted investigations from the Senate Committee on Governmental Affairs and ED's inspector general. By 1990, default rates on student loans exceeded 30 percent (Looney and Yannelis 2015). Investigations initiated by Secretary of Education William J. Bennett revealed a pattern of "exploitative and deceitful practices" by for-profit career programs, which Bennett summarized as "an outrage perpetrated not only on the American taxpayer, but, most tragically, upon some of the most disadvantaged, and most vulnerable members of society." The response of policymakers was swift and decisive, including legislation of substantial new accountability measures on institutions, limitations on the amounts of revenues for-profit institutions were able to derive from federal Title IV sources, and limits on other abusive practices. And those accountability systems were effective, driving down default rates into the single digits (Looney and Yannelis, forthcoming).

Beyond salient student loan defaults, the more significant economic problem is that too many students leave educational programs without having improved their earnings and employment prospects. For instance, according to Cellini and Turner (2018) at many career-oriented programs students left school with *worse* job prospects—lower earnings and employment rates—than they faced prior to school entry, despite having incurred considerable costs and loan burdens. The authors also show that, on average, the lifetime earnings gains from attendance are not enough to outweigh the debt incurred by students in for-profit certificate programs. In short, the average student's investment in a for-profit program does not pay off. A burgeoning literature on the employment and earnings outcomes of for-profit students supports this finding. Cellini and Koedel (2017) synthesize this body of literature and find a consistent pattern among the

. . .

[1] See U.S. Department of Education (n.d.).

studies that can adequately control for differences in student demographics and background characteristics: post-college earnings of for-profit college students are typically lower than—and, at best, equal to—the earnings of similar students in public institutions, despite the fact that for-profit students pay more and accumulate more debt. In other words, the economic benefit or return that students earn on their educational investments varies widely, with some students experiencing poor outcomes. Regulations proposed in 2014—the Gainful Employment rules—were intended to impose sanctions on programs that systematically and repeatedly left their students with high levels of debt relative to their earnings; those regulations were delayed by the Trump Administration and are slated to be dismantled.

2) An effective sanction regime would disproportionately affect for-profit programs that contribute most to problems student borrowers face—but not because of the characteristics of the students they serve.

Some postsecondary education programs leave their students with high levels of debt and few skills to increase their earnings capacity enough to justify the program's cost. Regulations that limit federal aid to such programs are an appropriate policy response to reduce the costs of student loans to taxpayers, increase the return on human capital investments, and to protect students from economic harm. Because poor student outcomes occur disproportionately in the for-profit sector, any credible sanction regime would have disproportionate effects on that sector.

For instance, the 2014 GE rule applied to gainful employment certificate programs at public, private non-profit, and for-profit institutions alike, and degree programs at for-profit institutions. The focus on for-profit institutions is not the result of the regulation per-se, but reflects Congress's intent in legislation to subject for-profit institutions to greater supervision, and the fact that students at for-profit institutions represent a disproportionate share of students experiencing poor outcomes. Indeed, attending a four-year private for-profit college is the strongest predictor of default (more predictive than dropping out) according to researchers at the Federal Reserve Bank of New York (Chakrabarti et al., 2017a). While the scope of the 2014 GE rule was dictated by legislation, Congress's legislative approach and the scope of the regulation was justified by the fact that poor labor market and loan outcomes for students were highly concentrated among for-profit programs—suggesting that the benefits of redirecting students to higher performing programs relative to any reporting burdens imposed on institutions is likely to be highest in that sector.

In particular, the recent increase in default rates and other poor student outcomes was associated with a dramatic rise in student enrollment in the for-profit higher education sector. Between 2000 and 2010, fall enrollments at for-profit institutions more than tripled compared to growth of about 28 percent among all institutions (U.S. Department of Education 2016). This rise in enrollments was associated with reports of abuse of federal student aid in the sector[2] and considerable evidence that many programs were not preparing students for success in the labor market. Early studies showed that while students from for-profit colleges accumulate higher levels of debt due to higher tuition prices, their labor market earnings after enrollment were low and the rates of default on their loans were demonstrably higher (Deming et al. 2012, Lang and Weinstein 2013). In 2009, for-profit institutions accounted for about 11 percent of all postsecondary enrollments but about 50 percent of all student loan defaults (Deming et al 2012). In their analysis of why default rates increased between 2000 and 2011, Looney and Yannelis (2015) trace much of the recent surge in student loan defaults and other negative student outcomes to the increase in enrollment at for-profit

. . .

[2] For example, see GAO (2010) and GAO (2011).

institutions. Looney and Yannelis (2015) showed that approximately half of the increase in student loan defaults between 2000 and 2010 was driven by increased student enrollment in for-profit institutions.

Based on data on student earnings and debt outcomes released by the Department of Education in 2017, among certificate programs where all programs are subject to the rule regardless of institutional control, 779 of the 869 programs that did not pass the debt-to-earnings standard (i.e., failed or were "in the zone") were operated by for-profit colleges. Overall, 98 percent of the students enrolled in programs that did not meet this standard were in for-profit programs. Similarly, the Regulatory Impact Assessment for the 2014 GE Rule noted "low earnings and high rates of student loan default are common in many GE programs. For example, 27 percent of the 5,539 GE programs that the Department estimates would be assessed under the accountability metrics of the final regulations, produced graduates with mean and median annual earnings below those of a full-time worker earning no more than the Federal minimum wage ($15,080). Approximately 22 percent of borrowers who attended programs that the Department estimates would be assessed under the accountability metrics of the final regulations defaulted on their Federal student loans within the first three years of entering repayment." As we describe further in the next sections, these patterns are not driven solely by student demographics or socioeconomic status: these patterns hold across a wide number of economics studies that control for these factors.

A large body of research studies documents the loan and labor market outcomes of students in GE programs and across higher education sectors. This evidence strengthens the justification for the 2014 GE rule's disproportionate effect on for-profit degree programs by illustrating that students that attend for-profit institutions have outcomes that are substantially worse than initially understood, both in terms of student loans and labor market outcomes. Importantly, as this summary of the literature shows, this evidence has only gotten clearer since the 2014 GE rule was passed. As one analysis concludes, "Students who attend for-profit institutions take on more educational debt, have worse labor market outcomes, and are more likely to default than students attending similarly selective public schools (Armona et al., 2018)." Combined with the results of other new research studies (discussed in the following section) suggesting that students who attend programs closed by accountability provisions are likely to re-enroll in nearby non-profit or public institutions, this suggest the net benefits of the rule are also likely higher than initially anticipated.

Evidence on Loan Outcomes

Recent research on student loans documents the disproportionate borrowing and high default rates among for-profit college students. Looney and Yannelis (2015) document higher rates of default in the for-profit sector and suggest that the relative growth in the number of borrowers in that sector can explain (in an accounting sense) between one fourth and one half of the increase—a near doubling—in the cohort default rate between 2000 and 2011. Beyond the official two-year cohort default rates on student loans, Looney and Yannelis (2015) illustrate a broader pattern of loan delinquency among for-profit borrowers. Two years after leaving school and entering repayment on their loans, almost three quarters of for-profit borrowers owed more, because of accumulating interest and fees, than they did when repayment began. Five years after entering repayment, almost half (47 percent) of the 2009 cohort of for-profit borrowers had defaulted on a federal student loan. For-profit students were more likely to borrow and borrowed more each year of enrollment than other students, and across a wide variety of loan outcome measures, those borrowers faced worse outcomes than borrowers from other types of institutions. A recent study by Scott-Clayton (2018b) shows the relatively poor outcomes of students at for-profit colleges remains even after controlling for differences in family income, age, race, academic preparation, and a host of other factors, echoing a similar finding by Looney and Yannelis (2015). She finds in particular that even among students similar in these

dimensions, students that attend for-profit institutions are roughly 50 percent more likely to default on a student loan than students who attend public community colleges.

Cellini and Darolia (2016) show that high tuition drives the disproportionate student borrowing in the for-profit sector while student background characteristics can explain only a small portion of the difference between sectors. Armona et al. (2018) further find that increases in local enrollment in for-profit colleges lead to increases in student borrowing and a higher likelihood of default.

Evidence on Labor Market Outcomes

Earnings gains from college attendance are among the most important potential benefits of postsecondary education—especially for programs intended to prepare students for gainful employment in a recognized profession—and are also critical for assessing students' ability to repay loans. The most comprehensive study of labor market outcomes for students in GE programs is Cellini and Turner (2018), who use administrative data from the Department of Education linked to earnings information from the Internal Revenue Service, to estimate earnings gains for over 1.4 million students attending GE programs between 2006 and 2008. The average change in earnings measured 5 to 6 years post-attendance relative to students' own prior earnings were found to be *negative* for students in for-profit certificate, associate's and bachelor's degree programs. For certificate programs, where GE data cover both for-profit and non-profit sectors, earnings gains for students in for-profit institutions were found to be much lower than those for students in public institutions, even after accounting for differences in student characteristics. For-profit students also incurred larger debt burdens than the students in comparable programs at public institutions and these results held across most of the major fields of study. Comparing for-profit GE certificate students to a demographically-similar group of high school students who never attended college, Cellini and Turner (2018) find little to no earnings gain from attending. This bears emphasis: in contrast to most other forms of higher education, their evidence implies that, on average, students' investments in for-profit GE certificate programs are unlikely to generate net benefits over their lifetime, suggesting students would be better off not going to college at all in comparison.

Recent research results show the poor labor market outcomes of many for-profit institutions reflect the poor quality of education in the sector rather than other factors, like the relative disadvantage of its students. Cellini and Koedel (2017) review the recent literature on the earnings gains to for-profit college attendance. The 9 studies they review comparing for-profit students to students in the public sector (published or publicly-available working papers since 2010) draw on various methodologies to disentangle the influence of for-profit college attendance from other factors associated with the nonrandom selection of students into these institutions. A consistent pattern emerges from these studies: the post-college earnings of for-profit college students are typically lower than—and, at best, equal to—the earnings of similar students in public institutions, despite the fact that students pay more and accumulate more debt to attend. This pattern of negative to null relative earnings differentials is consistent across all degree types and credentials (4-year, 2-year, and certificate programs) as well as for samples of first-time college students, young workers, and federal aid recipients, among others in the literature.

A few studies also compare labor market outcomes of for-profit college students with similar individuals who do not attend college to assess whether for-profit attendance generates gains over non-attendance. Like Cellini and Turner (2018), noted above, these studies of the absolute return to attendance find null or small positive effects of for-profit college-going that are unlikely to be large enough to offset the private cost

of attendance even when the alternative is to forgo college altogether (Cellini and Koedel 2017). Adding in taxpayer costs of for-profit education (i.e., Cellini 2012) makes it even less likely that the small positive earnings gains found in some studies would outweigh the social cost of a for-profit education.

Two recent experimental resume audit studies explore employer perceptions of the quality of workers who train at for-profit versus not-for-profit institutions (Deming et al. 2016 and Darolia et al. 2014). Deming et al. (2016) find that resumes with bachelor's degrees from large for-profit chain institutions are 22 percent (2 percentage points) less likely to receive a callback than otherwise identical resumes listing degrees from nonselective public schools when sent to job postings that require a bachelor's degree. Both studies find similar callback rates for applicants with for-profit vs. public sub-baccalaureate credentials. Yet this similarity in callback rates by sector should be compared to the cost of attendance, which is much higher for for-profit certificates. Thus both of these studies suggest that for-profits are a worse deal for students than their public sector competitors.

Finally, Chou et al. (2017), using administrative data produced by Federal Student Aid, show that students at for-profit institutions have higher debt burdens relative to their earnings (D/E ratio) and that institutions with high D/E ratios, particularly among non-selective institutions, are more likely to have worse loan repayment outcomes, lower rates of economic opportunity, and other poor loan and labor market outcomes. At institutions with high D/E ratios, students from both high- and low-income backgrounds experienced poor outcomes, suggesting that the characteristics of the institution—rather than the background of the students—are a key driver of adverse student outcomes. Their analysis also showed that students at for-profit programs experience especially poor outcomes compared to undergraduates at public and private non-profit schools on outcomes like economic opportunity, loan repayment, and default. For instance, among the 10 percent of institutions with the lowest five-year repayment rate (measuring the fraction of loans repaid by the 2009 cohort of borrowers by 2014), 70 percent were for-profit institutions. (Only 1 percent of schools in the top 10 percent were for-profit institutions).

3) Regulations based on appropriate and robust measures of student outcomes, like debt, earnings, or repayment can help address the problems plaguing federally-supported students.

The intent of the 2014 GE regulation (and other federal accountability rules, like the cohort default rate rule) was to encourage aid-receiving institutions to improve or close poor performing programs, and encourage students to use federal aid to enroll in programs with better outcomes. The 2014 GE rule, for example, pursued this goal through two approaches. First, the regulations created consequential accountability by defining which programs at private for-profit, private non-profit, and public institutions lead to "gainful employment," and thus are eligible to receive federal student aid under the Higher Education Act, based on a measure of the debt-burden of recent graduates—the debt-to-earnings (D/E) ratio. More specifically, programs were defined as leading to gainful employment if the average annual loan payments of program graduates about 3 years after graduating do not exceed more than 20 percent of the average discretionary income (i.e., earnings above a poverty threshold), or 8 percent of total earnings. Programs whose graduates experience systematically high D/E ratios over multiple graduating classes were prohibited from participating in federal aid programs.

Second the regulations created transparency requirements, aimed at ensuring that students receive information on program quality and costs prior to enrolling—especially for low-performing programs. All GE programs had to provide a "disclosure template" with information about program costs and other information including student outcomes to prospective and enrolled students, link to it on all program and financial aid pages of their websites, and must include the link to the template in promotional and advertising materials. Schools that fail the D/E rate (or are otherwise potentially one year away from losing Title IV eligibility) were required to provide a warning through this template, and document that enrolled and prospective students receive the warning.

These two approaches were complementary and a useful model for federal accountability more generally. The transparency requirements are designed to work immediately, and steer students to higher quality programs and give institutions an incentive to improve to maintain enrollments. Recognizing that information alone is often insufficient protection, especially for lower-income students, the accountability provisions ensure that federal dollars do not continue to support enrollment in programs that persistently graduate students with low earnings and high levels of debt.

The accountability system in the 2014 GE regulations was based on a simple debt-to-earnings (D/E) standard for programs to be eligible to distribute Title IV financial aid, which directly targets the costs of poor student outcomes. The D/E standard is a metric of ability-to-repay that is ubiquitous in the world of credit and is rooted in academic research and industry practice. An attractive feature of the D/E metric is that it can be interpreted as a proxy for the economic return to the government's investment in borrowers' education because it relates the financial cost of the investment (debt) to the rewards to that investment (earnings). This investment-reward framework is particularly valuable when assessing programs whose purpose is to lead to students' gainful employment. Intuitively, the rule asks whether post-graduation earnings are sufficient to cover the cost of the investment and ensure an appropriate reward. Much like when high mortgage rates limit the amount home buyers can prudently buy, high loan costs (or low earnings) reduce the amounts students should prudently borrow—and the amount the federal government should prudently lend.

Beyond the 2014 GE standards, an accountability system predicated on repayment rates—particularly when paired with a system of income-based repayment—could achieve a similar outcome. In an income-based repayment system, the progress a student (or cohort of students) makes repaying their loan over a specified time is dependent on their original loan balance and their earnings. Hence, a system that applied sanctions based on students' repayment rates could produce the same incentives and improvements as did the 2014 GE rules sanctions based on D/E ratios.

4) Strong accountability systems improve economic outcomes of students by limiting access to low-quality, low-performing institutions, and redirecting students to better-performing institutions.

Federal oversight and accountability systems, like the 2014 GE rule, the cohort default rate rules, and other oversight applied to ensure program integrity and reduce waste, fraud, and abuse have a successful track record of improving student outcomes and reducing waste in federal aid programs. (Cellini, Darolia, and Turner 2016, Whitman 2017a,b; Looney and Yannelis, forthcoming). For instance, as Looney and Yannelis (forthcoming) document, the implementation of accountability measures in the early 1990s limited federal aid to high default rate institutions, leading hundreds of low-quality, federal aid dependent institutions to

close their doors, and sending the two-year student loan default rate from more than 30 percent in 1990 to less than 10 percent by the late 1990s. Beyond the dramatic decline in the default rate, more qualitative anecdotes suggest the improvements in accountability reduced the prevalence of abusive recruiting practices and led many institutions to close low performing programs.

Looney and Yannelis (forthcoming) examine the history of the student loan default rate from 1970 through 2014 and document that the majority of the time series variation in student loan default is driven by federal policies varying access to credit. Expansions of credit—increases in loan limits or eligibility for new groups of students or institutions—led to rapid entry and expansion of new institutions (mostly for-profit institutions). And contractions in credit, from the introduction of accountability systems, lead to the exit or contraction of high-risk institutions. Expanding and contracting student loan eligibility to high-risk institutions explains almost all of the variation in student loan default rates over time. For instance, over the period from 1980 to 2011, 91 percent of the overall variation in aggregate 2-year federal student loan default rates is explained by the two-year lagged share of borrowers enrolled at for-profit schools (plus a time trend). Other time varying factors, like economic conditions, student characteristics, the cost of tuition and fees, typical student debt burdens, or repayment plan availability are uncorrelated with aggregate changes in the default rate.

One reason for the increase in default rates over the past decade is that accountability rules were watered down after the default rate fell in the 1990s—a pattern that has repeated several times over the past century. Prior to the Cohort Default Rate regulations of the 1990s, for-profit colleges had been the targets of at least two additional rounds of scandal and subsequent regulatory pressure. In the early 1950s the Truman Administration responded to abuses by for-profit college following the introduction of the GI Bill (Whitman 2017a). The Ford Administration put further restrictions in place after enrollment (and scandals) in for-profit colleges increased in the 1970s, as correspondence courses grew in popularity and federal aid was expanded (Whitman 2017b). A lesson from past experience is that accountability rules need to be permanent so that students and taxpayers don't continue to experience the cycles of default.

While no programs were sanctioned under the GE rule, early anecdotes indicate that some institutions already closed poorly performing programs or changed academic guidelines in anticipation of their effect. Of 767 failed programs, 500 (65 percent) are now closed. About half of those are because the institution itself closed, but more than 200 were selectively closed/changed by their institutions. These changes are evidence of the rule's positive impact in altering the postsecondary landscape to remove low-value programs.

Improving or closing poor-quality programs and shifting enrollment from low-quality to high-quality institutions has substantial benefits for students, the economy, and federal coffers. For instance, research examining the universe of gainful employment certificate programs shows that the average student who had enrolled at a for-profit GE program were 1.5 percentage points less likely to be employed and earned 11 percent less ($2,100 per year) than students enrolled at comparable gainful employment programs at public institutions, but had $5,000 more in student loan debt (Cellini and Turner 2018). Hence, shifting aid eligibility away from the worst-performing gainful employment programs to better ones will increase the average earnings and employment, and reduce the debt burden of students. Indeed, in the NPRM to its 2014 rulemaking, the Department estimated that the gainful employment rule would lead to lifetime earnings gains between $11-36 billion, as programs improve quality and students transfer to better performing programs (79 FR 16632).

As programs close or admissions criteria change, an important concern is that some students could lose access to certain programs as a result of a rule. Fortunately, the evidence summarized below suggests that students in sanctioned schools do not lose access to college. Rather, students respond to sanctions by moving on and attending other, better institutions. In other words, the evidence suggests we need not force students to choose between going to college and taking out a loan that they would be unable to repay.
At the outset it is important to stress that college-going per se may not be socially desirable if, for example, a student's earnings and other aspects of her life are left unchanged or worsened at her and taxpayers' expense. Cellini and Turner's (2018) finding of negative earnings gains suggest that for many for-profit programs, deterring enrollment by closing the program would benefit society. More generally, however, we might worry that closing programs would decrease college going overall.

New research from Cellini, Darolia, and Turner (2016) allays this concern. When for-profit colleges lost access to federal student aid due to cohort default rate (CDR) regulations in the 1990s, enrollment losses in sanctioned for-profit institutions were entirely offset by enrollment gains in local public institutions. Their results show that loss of federal aid eligibility shifts students across sectors and suggests that community colleges are accessible substitutes for students who enroll in for-profit colleges. Cellini (2010) provides further evidence of this substitutability by showing that enrollment in California community colleges increased shortly after capacity increases due to the passage of a local bond measure, while the number of nearby for-profit colleges declined. In other words, the research evidence shows that the GE rule is unlikely to impose unintended costs by deterring students from attending college at all (though recall evidence presented above that suggests students may be better off even in this event). Rather, this evidence suggests instead that closing low-performing programs will lead students to attend a cheaper college leading to higher earnings.

Other accountability systems available under the Higher Education Act would not have the same benefits. The evidence suggests that disclosure-only systems are necessary, but not sufficient on their own, to improve the outcomes of low-performing institutions or to help students and taxpayers avoid the problems of unsustainable debts (we describe this literature in the next section). Moreover, the historical experience with institutional accountability measures suggests that sanctions result in swift and beneficial improvements in outcomes. For instance, the institutional accountability measures legislated in the past proved to be very effective in reducing poor student loan outcomes. After the imposition of the Cohort Default Rate regulations in the early 1990s under the Bush administration, more than 1,200 for-profit institutions faced sanctions and the official cohort default rate plunged from 21.4 percent in 1989 to 10.4 percent in 1995 and 5.6 percent in 1999.[3] Examining the same sanctions, Cellini, Darolia, and Turner (2016) find evidence of reduced borrowing and student loan defaults in markets with sanctioned institutions.

Information disclosures, while important and necessary to the implementation of accountability systems, are insufficient to address the problems federal aid recipients face.

Information disclosures are important as they arm institutional leaders, sophisticated students, and other stakeholders (state, local, federal authorities) with information to monitor and guide improvement of student outcomes. And new information on student outcomes is increasingly available through federal sources . . .

[3] https://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html.

like the College Scorecard. (Indeed, the Scorecard should eventually include program-level outcomes, which have been delayed due to data availability.[4]) But recent research evidence suggests that information and market forces alone are not likely to be sufficient to pressure the worst performing institutions to improve, or to help consumers who are inattentive or have less-support from making ill-advised choices with federal dollars.

A study by Hurwitz and Smith (2018) asks whether the release of the College Scorecard impacted college application behavior. While they find that the Scorecard led well-resourced students to apply to colleges with higher median earnings, they found very small impacts overall, and no impact of the College Scorecard on the college applications of students in less-affluent high schools, those with lower levels of parental education, and underserved minority groups. Similarly, a study by Blagg et al. (2017) found that students in schools randomly assigned to receive access to program level outcome information did not make greater use of information relative to students in schools that did not have such access. Unsurprisingly, then, providing information did not alter the programs students chose to enroll in. Finally, Bettinger et al. (2012) randomly assigned low-income families to receive accurate and easily digestible information about college costs net of financial aid. They found no impacts on college going or institutional choice from only providing families with such information.

These studies all suggest that information provision alone is not enough to alter the enrollment choices of less-resourced students and incentivize higher performance among institutions. Absent market pressure from students using information to choose higher-quality programs, institutions have the perverse incentive to maximize enrollment driven revenue without regard for educational quality or cost. Other accountability provisions are needed to create financial incentives for institutions to improve student outcomes.

While improving information disclosures are not a substitute for explicit incentives or sanctions, disclosure provisions are an important complement. In their review of the research literature on the impacts of laws requiring public disclosure of consumer information, Lowenstein et al. (2014) conclude that disclosures are most likely to be effective, *inter alia*, when they are simple, provide standardized and comparative information, and "vivid" (presented in a way sure to receive attention from target consumers).

. . .

[4] For example, see announcements here: https://obamawhitehouse.archives.gov/the-press-office/2015/09/12/fact-sheet-empowering-students-choose-college-right-them, and here: https://www.ed.gov/news/press-releases/fact-sheet-obama-administration-announces-release-new-scorecard-data.

References:

Armona, Louis, Rajashri Chakrabarti, and Michael Lovenheim (2018). "How Does For-Profit College Attendance Affect Student Loans, Defaults, and Earnings?" *Federal Reserve Bank of New York*. https://www.newyorkfed.org/research/staff_reports/sr811.html.

Bettinger, Eric, Long, Bridget, Oreopoulos, Philip and Sanbonmatsu, Lisa, (2012). "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block Fafsa Experiment." *The Quarterly Journal of Economics* 127(3): 1205-1242. https://EconPapers.repec.org/RePEc:oup:qjecon:v:127:y:2012:i:3:p:1205-1242.

Blagg, Kristin, Matthew M. Chingos, Claire Graves, Anna Nicotera, and Lauren Shaw (2017). "Rethinking Consumer Information in Higher Education." *Urban Institute: Washington, D.C.* http://www.urban.org/sites/default/files/publication/91666/rethinking_consumer_information_in_higher_education_2.pdf

Bozick, Robert, and Angela Estacion, (2014). "Do student loans delay marriage? Debt repayment and family formation in young adulthood." *Demographic Research*. Volume 30, Article 69, page 1965-1891.

Cellini, Stephanie Riegg (2010). "Financial Aid and For-Profit Colleges: Does Aid Encourage Entry?" *Journal of Policy Analysis and Management*. 29(3): 526-52.

Cellini, Stephanie Riegg (2012). "For-Profit Higher Education: An Assessment of Costs and Benefits," *National Tax Journal* 65(1): 153-180.

Cellini, Stephanie Riegg and Latika Chaudhary (2014). "The Labor Market Returns to a For-Profit College Education." *Economics of Education Review*. 43: 125-140.

Cellini, Stephanie Riegg and Rajeev Darolia (2016). "Different degrees of debt: Student borrowing in the for-profit, nonprofit, and public sectors." *Brown Center on Education Policy at Brookings*. https://www.brookings.edu/research/different-degrees-of-debt-student-borrowing-in-the-for-profit-nonprofit-and-public-sectors/.

Cellini, Stephanie Riegg, Rajeev Darolia, and Lesley Turner (2016). "Where do Students Go When For-Profit Colleges Lose Federal Aid?" *NBER Working Paper 22967*.

Cellini, Stephanie Riegg and Cory Koedel (2017), "The Case for Limiting Federal Student Aid to For-Profit Colleges," *Journal of Policy Analysis and Management: Point/Counterpoint*, 36(4): 934-942.

Cellini, Stephanie Riegg and Nicholas Turner (2016). "Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data." *NBER Working Paper 22287*.

Cellini, Stephanie Riegg and Nicholas Turner (2018). "Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data." *Journal of Human Resources*. http://jhr.uwpress.org/content/early/2018/01/31/jhr.54.2.1016.8302R1.abstract

Chakrabarti, Rajashri, Nicole Gorton, Michelle Jiang, and Wilbert van der Klaauw, (2017a). "Who Is More Likely to Default on Student Loans?" Federal Reserve Bank of New York Liberty Street Economics (blog), November 20, 2017, http://libertystreeteconomics.newyorkfed.org/2017/11/who-is-more-likely-to-default-on-student-loans.html.

Chakrabarti, Rajashri, Nicole Gorton, and Wilbert van der Klaauw, (2017b). "Diplomas to Doorsteps: Education, Student Debt, and Homeownership," Federal Reserve Bank of New York Liberty Street Economics (blog), April 3, 2017, http://libertystreeteconomics.newyorkfed.org/2017/04/diplomas-to-doorsteps-education-student-debt-and-homeownership.html.

Chetty, Raj, John Friedman, Emmanuel Saez, Nicholas Turner, and Danny Yagan (2017). "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility." *The Equality of Opportunity Project*. http://inequality.stanford.edu/mobile/publications/media/details/mobility-report-cards-role-colleges-intergenerational-mobility.

Chou, Tiffany, Adam Looney, and Tara Watson (2017). "Measuring Loan Outcomes at Postsecondary Institutions: Cohort Repayment Rates as an Indicator of Student Success and Institutional Accountability." *NBER Working Paper 23118*.

Darolia, Rajeev, Cory Koedel, Paco Martorell, Katie Wilson, and Francisco Perez-Arce (2014). "Do Employers Prefer Workers Who Attend For-Profit Colleges? Evidence from a Field Experiment." *Rand Working Paper*.

Deming, David J., Claudia Goldin, and Lawrence F. Katz (2012). "The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?" *Journal of Economic Perspectives*. 26(1):139-164.

Deming, David J., Noam Yuchtman, Amira Abulafi, Claudia Goldin, and Lawrence F. Katz (2016). "The Value of Postsecondary Credentials in the Labor Market: An Experimental Study." *American Economic Review*. 106(3): 778-806.

Dynarski, Susan (2016). "With Trump, Investors See Profits Again in For-Profit Colleges." *New York Times*. November 18. https://www.nytimes.com/2016/11/19/upshot/with-trump-investors-see-profits-again-in-for-profit-colleges.html.

Federal Reserve Bank of New York (2018). "Student Loan Data and Demographics." Consumer Credit Panel. https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/sl_update_2018.xlsx

Field, Erica (2009). "Educational Debt Burden and Career Choice: Evidence from a Financial Aid Experiment at NYU Law School." *American Economic Journal: Applied Economics* 2009, 1:1, 1–21http://www.aeaweb.org/articles.php?doi=10.1257/app.1.1.1.

Gladieux, L. E. (1995). "Financing Postsecondary Education: The Federal Role. Federal Student Aid Policy: A History and an Assessment." *U.S. Department of Education*. https://www2.ed.gov/offices/OPE/PPI/FinPostSecEd/gladieux.html

Hastings, Justine, Christopher A. Neilson, and Seth D. Zimmerman (2017). "The Effects of Earnings Disclosure on College Enrollment Decisions." *NBER Working Paper 21300*.

Hurwitz, Michael and Jonathan Smith (2018), "Student Responsiveness to Earnings Data in the College Scorecard." *Economic Inquiry, 56(2): 1220-1243*.

Lang, Kevin and Russell Weinstein (2013). "The Wage Effects of Not-for-Profit and For-Profit Certifications: Better Data, Somewhat Different Results." *Labour Economics*. 24: 230-243.

Libassi, CJ and Ben Miller (2017). "How Gainful Employment Reduces the Government's Loan Forgiveness Costs." *Center for American Progress*. https://www.americanprogress.org/issues/education/reports/2017/06/08/433531/gainful-employment-reduces-governments-loan-forgiveness-costs/.

Looney, Adam and Constantine Yannelis (2015). "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults." *Brookings Papers on Economic Activity*. https://www.brookings.edu/bpea-articles/a-crisis-in-student-loans-how-changes-in-the-characteristics-of-borrowers-and-in-the-institutions-they-attended-contributed-to-rising-loan-defaults/.

Looney, Adam and Constantine Yannelis (forthcoming). "The Consequences of Student Loan Credit Expansions: Evidence from Three Decades of Default Cycles." https://www.dropbox.com/s/3b80t5b7v5bbdq7/Credit_Expansion.pdf?dl=0

Loewenstein, G., Sunstein, C. R., & Golman, R. (2014). "Disclosure: Psychology changes everything." *Annual Review of Economics*. 6: 391–419.

Scott-Clayton, Judith (2018a). "The looming student loan default crisis is worse than we thought." *Brookings Evidence Speaks Reports,* 2(34).

Scott-Clayton, Judith (2018b). "What accounts for gaps in student loan default, and what happens after." *Brookings Evidence Speaks Reports,* 2(57).

U.S. Department of Education, Federal Student Aid (n.d.). "Default Rates". https://studentaid.ed.gov/sa/about/data-center/student/default.

U.S. Department of Education, National Center for Education Statistics (2016). "Digest of Education Statistics 2015". *51st Edition, NCES 2016-014*. https://nces.ed.gov/pubs2016/2016014.pdf.

U.S. Government Accountability Office (2010)." Undercover Testing Finds Colleges Encouraged Fraud and Engaged in Deceptive and Questionable Marketing Practices." *GAO-10-948T*. http://www.gao.gov/assets/130/125197.pdf.

U.S. Government Accountability Office (2011). "Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges." *GAO-12-150*. http://www.gao.gov/assets/590/586456.pdf.

US Senate (1991) "Abuses in Federal Student Aid Programs" Permanent Subcommittee of Investigations, Committee on Governmental Affairs.

Whitman, David (2017a). "Truman, Eisenhower, and the First GI Bill Scandal." *The Century Foundation*. https://tcf.org/content/report/truman-eisenhower-first-gi-bill-scandal/.

Whitman, David (2017b). "Vietnam Vets and a New Student Loan Program Bring New College Scams." *The Century Foundation*. https://tcf.org/content/report/vietnam-vets-new-student-loan-program-bring-new-college-scams/.

Economic Studies
at BROOKINGS

The Brookings Economic Studies program analyzes current and emerging economic issues facing the United States and the world, focusing on ideas to achieve broad-based economic growth, a strong labor market, sound fiscal and monetary policy, and economic opportunity and social mobility. The research aims to increase understanding of how the economy works and what can be done to make it work better.

Questions about the research? Email communications@brookings.edu.
Be sure to include the title of this paper in your inquiry.

© 2017 The Brookings Institution | 1775 Massachusetts Ave., NW, Washington, DC 20036 | 202.797.6000