

# POLICY *focus*

RECIPES FOR RATIONAL GOVERNMENT

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## A Market in Higher Education

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### Introduction

Americans need more and better opportunities to obtain education and skills training, not just immediately following high school, but also throughout their careers in order to keep up with the changing economy. The cost of college tuition has more than doubled during the past 30 years and **studies** have called into question how much learning occurs during college. Because of this, many Americans have come to question if an investment in high education makes sense. At the same time, many high-paying jobs, including many that do not require college degrees (such as those in the skilled trades), go unfilled for lack of qualified candidates.

The good news is that the market is responding to the demand for different education paradigms and offering students, at all ages and stages of life, new opportunities to learn and gain skills. Some traditional colleges and universities are offering students access to lower-cost education options, including access to course materials online. For-profit businesses are developing a variety of new educational services that compete with traditional providers as well as fill critical gaps by offering more specific, skills-based education and training opportunities.

Policymakers should applaud these trends and consider policy reforms to encourage continued innovation in education. Importantly, education consumers—not government regulators—are best situated to sort out which providers, both traditional and for-profit, provide value and which do not. This process is the best way to bring costs of education down and provide more Americans with access to the education and training that they need.

## What You Need to Know

Americans need to have access to education and training services at many stages of life. Encouraging a true market in higher education can:

- **Make Higher Education More Affordable:** New education providers entering the higher education market must compete for students, and this creates downward pressure on price. While college tuition has continued to rise, the **rate of growth** has slowed in recent years.
- **Make Higher Education More Accountable:** Students are becoming more focused on the real-world outcomes that educational institutions offer (for example: How many students go on to obtain jobs? How much do these jobs pay?). This shift will encourage all higher education providers to offer better value.
- **Prepare People to Fill Existing Jobs:** Employers today often lament the lack of qualified candidates to fill good-paying job openings. Innovative education service providers can help address this need by working with would-be employers to develop programs to train people for these promising careers and specialties.
- **Serve Non-Traditional Students:** Older students, military veterans, and those switching careers often have very different needs than traditional, college-bound high school graduates. Higher education providers ought to respond to these needs by offering a variety of schedules and ways to access services.

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## More Information

### Our Inefficient, Traditional Higher Education System

Today, in-state college tuition at the average four-year public institution costs **\$9,970** each year; a year at the average private university costs a jaw dropping **\$34,740** per year. And that's before paying for room and board, books, and other fees. In real terms, college costs twice as much as it did thirty years ago. Parents begin planning for—and often worrying about—how they will pay these costs before a baby is even born.

The high cost of college is even more troubling given research that questions how much learning students acquire during these years of study. According to the 2011 book *Academically Adrift*, 45 percent of students learn little to nothing after two years of college, and more than one in three learn next to nothing after four years. Other research, such as this report from the **Council for Aid to Education**, found more encouraging improvements in students' critical-thinking skills and work preparedness during the course of college. However, this research notes that “where a student goes to college can matter, as well—and that the schools contributing most heavily to their students' growth in...skills are not necessarily the schools one would expect.”

While many question if the typical four-year undergraduate college is worth its significant price tag, the need for additional education

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and skills-development opportunities is clear. **One recent study** found that nearly half (47 percent) of U.S. jobs are at risk for automation, including everything from telemarketing to research, filing and record keeping to repair and some forms of manual labor. The jobs least at risk of automation involve human interaction, as well as high levels of creativity.

Already, high-paying jobs are going unfilled because of a lack of qualified candidates. For example, the tech industry alone has about **\$21 billion worth** of unfilled, high-paying jobs available in the United States. Americans need education and training opportunities to prepare people for these jobs immediately after high school, as well as throughout their lives so that they can respond to the changing economy.

## Market Competition Is Starting to Work

A recent *Wall Street Journal* report highlighted trends that suggest that students are becoming smarter education consumers, and are shifting their preferences in higher education institutions:

According to an analysis of 20 years of freshman-enrollment data at 1,040 of the 1,052 schools listed in **The Wall Street Journal/Times Higher Education ranking**, U.S. not-for-profit colleges and universities are segregating into winners and losers—with winners growing and expanding and losers seeing the first signs of a death spiral.

The Journal ranking, which includes most major public and private colleges with more than 1,000 students, focused on how well a college prepares students for life after graduation. The analysis found that the closer to the bottom of the ranking a school was, the more likely its enrollment was shrinking.

In other words, those colleges that were found to be more successful at preparing students were attracting more business, while those that were failing to prepare students were struggling to attract customers. In economics, this process is referred to as “creative destruction.” Providers that offer better value gain market share, and businesses that fail to keep up lose customers and ultimately have to go out of business.

It is always sad to learn of a business or institution having to close down. However, it is an important part of the market process and ensures that industries become better at delivering value to consumers. We wouldn’t want plumbers that over-charge and leave us with leaky pipes to stay in business. We wouldn’t want a hospital that failed to provide proper treatment and over-billed to continue operating without reform.

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Colleges and universities should be considered in the same vein. Education providers should compete for students by working to provide better value, including lowering tuition costs and delivering better educational opportunities that lead to better job placements and career outcomes for graduates. If they cannot, then they should exit the marketplace and leave this important work to other providers.

## New Entrants into the Higher Education Market

The shake out in the traditional college and university sector will accelerate as new education paradigms continue to come online and seek to meet the needs of students, at all ages, who are looking for an education that will make them more employable. Many of these new providers are for-profit businesses that have seized upon the opportunity to revolutionize higher learning during a time when more and more consumers are looking for alternatives to the traditional college pathway.

Some of these education providers are offering distinct, skills-based instruction that is designed to prepare students for very specific jobs. For example, **computer-code schools** and boot camps are working directly with employers to train people for jobs in the tech field that are currently unfilled.

Others are providing more traditional degree programs, though tailoring those programs to meet the needs of different student groups. For example, rather than offering liberal arts programs, for-profit education providers tend to specialize in more skills-based training that prepares students for specific industries. According to a **Department of Education study**, in 2012, 93 percent of students in for-profit education facilities were enrolled in what were categorized as “career and technical education,” rather than liberal arts programs. Approximately half of the students enrolled in a for-profit, two-year institution at that time were receiving training for work in the healthcare sector.

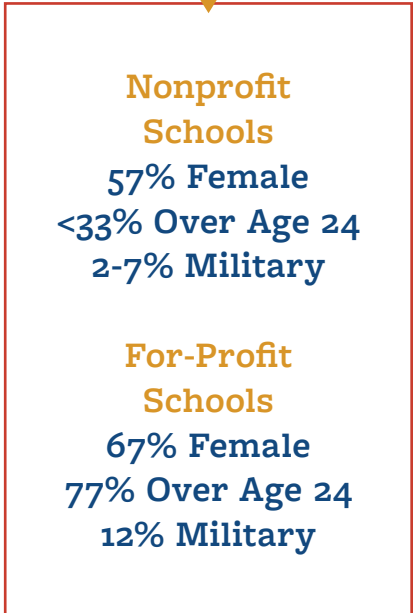
For-profit schools are also more likely to offer courses online and to provide educational services on a flexible schedule. About two-thirds of students in for-profit schools were women (compared to about 57 percent at public or nonprofit institutions). More than three in four students (about 77 percent) at for-profit four-year schools were over the age of 24 (compared to less than one in three at nonprofit schools). Students at for-profit schools are more likely to have a military background (accounting for 12 percent of the student body, compared to between 2 and 7 percent at nonprofit schools) and be an ethnic minority.

These institutions are responding to a weakness in the traditional higher education market and working to attract under-served communities of potential students. This process should be welcome.

## Is Profit Appropriate in Education?

Some are concerned about the idea of having for-profit companies in the business of providing educational services. They are concerned that educational providers will trick students into buying worthless educational programs and issue meaningless degrees and certificates.

Yet the market process is ideally suited to sort out educational services that provide value from those that don't. All institutions are legally prevented from committing fraud and making claims about their services and results that aren't factually accurate. Customers can and should sue fraudulent providers.



**Nonprofit  
Schools**  
57% Female  
<33% Over Age 24  
2-7% Military

**For-Profit  
Schools**  
67% Female  
77% Over Age 24  
12% Military



**For those innovative providers who prepare students most effectively for today's changing economy, there should be a great reward.**



Those who question if the profit motive will distort providers' behavior ought to note that the nonprofit education sector has had a poor record of delivering value to many students, leading them to question if their investment in college was worth the money. In fact, the lack of a profit motive may explain why so many colleges and universities have failed to innovate. Many taxpayer-supported nonprofit higher education institutions seem to have taken for granted that they could enjoy a steady stream of education customers without having to consider what type of instruction would actually prepare students for the world after graduation. Thankfully, due to greater transparency, increased focus on the outcomes of education programs, and more competition, that is starting to change.

The profit motive is important for encouraging innovation. For-profit providers are now filling holes that have existed for decades in serving older, mid-career students and providing more specific job training for discrete industries and specialties. Education is a critical part of the American Dream. Providing educational opportunities is an important business. For those innovative providers who prepare students most effectively for today's changing economy, there should be a great reward.

## What About Taxpayers?

The higher education marketplace is more complicated than in most businesses because education consumers rarely pay directly for their full tuition and education costs. Most students take out government-subsidized student loans. Unsurprisingly, the rates of borrowing and default at for-profit colleges—which tend to serve lower-income, less advantaged student populations—are higher than at traditional colleges and universities.

Policymakers ought to be concerned about how defaults on student loans impact taxpayers and our federal budget. Foremost, it was a mistake to have the government **take over the student loan industry** in its entirety in the first place, since private lenders would be far better at assessing risk and discouraging default. In addition to **rolling back** government's role in the lending business, policymakers should also consider reforms to shift some of the risk of potential student defaults to higher education institutions. Policymakers should also make it easier for education consumers to save on their own for these expenses with lifetime education savings accounts, so that they can depend less on borrowing.

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# What You Can Do

## Get Informed

Learn more about the Tax Cuts and Jobs Act. Visit:

- [Independent Women's Forum](#)
- [HeritageFoundation](#)
- [Cato Institute](#)

## Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

## Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

## Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

## CONNECT WITH IWF! FOLLOW US ON:

### ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

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