



Options for Innovation and Reform in Higher Education

Executive Summary

- Higher education is facing a confluence of challenges: tuition inflation, mounting student debt, and decreasing value in a changing economy.
- National-level reforms – specifically accreditation reform and greater transparency – would pave the way for greater innovation at the local level and generate more competition with traditional 4-year degree programs.
- Several innovative programs have integrated the private sector into job training with largely successful results, demonstrating a potential pathway for boosting innovation and competition.

Introduction

Higher education in the United States is facing a confluence of challenges. As unemployment numbers go down and job openings continue to rise, it's become critical that workers be equipped with the necessary skills to gain employment in the current and future workforce. Post-secondary education in all its forms, from bachelor's and graduate degrees to professional certifications, shows clear benefits for workers, yet higher education in many cases is not preparing workers adequately, leading to worker shortages in key industries.

Simultaneously, traditional post-secondary education is currently plagued by tuition inflation, decreasing value, and mounting student debt. Two aspects of the traditional higher education system, accreditation and information opacity, are little-known yet serious problems, leading to an outdated system that is stifling innovation and competition. Consequently, many alternatives, which are often effective and cheaper than the traditional 4-year degree, are not seen as viable options by potential students.

To spur competition and innovation in higher education, any reform to higher education in the United States must take place at two levels: a national level addressing federal policies, and a state or local level where innovative approaches are implemented.

National Problems with Higher Education

Two major areas in higher-education policy are ripe for reform: accreditation and information disclosure.

Accreditation and Incentives

Accreditation began in the 1880s as a voluntary peer review system in which universities could collaborate with and benefit from each other.¹ Universities worked together on issues such as transfer policies. But what began as an informal quality-control mechanism changed radically in 1965. Title IV of the [Higher Education Act \(1965\)](#) required that federal student loans only be used at accredited universities. This law radically changed accreditation, shifting it from a voluntary peer-review system into the federal government's way of ensuring the accountability of its student loans.

By tying federal funds to the accrediting process, the federal government created a potential conflict of interest. Currently about two-thirds of those who sit on accreditation agency boards are also employed by colleges—a vestige of the time when accreditation was a means of collaboration between schools.² At least two problems result from this structure. First, the organizations that are tasked with holding accountable the institutions that receive federal subsidies are those same institutions. The well-documented trend of tuition inflation at colleges raises the question of whether those colleges are maximizing the value of federal subsidies. But since federal student loans make up about 90 percent of total student aid, accrediting agencies—i.e. the colleges that make up these agencies—have little interest in doing anything about tuition inflation in order to maintain their large revenue from federal subsidies.^{3, 4}

The accreditation process also incentivizes accreditors to make standards that favor incumbent institutions while excluding higher-education startups and innovation in general. As a result, current accreditation standards favor evaluating colleges based on inputs such as library size, disciplinary codes, mission statements, and faculty hour caps—metrics that traditional institutions easily meet yet that nontraditional ones often struggle to achieve. These standards are not the best indicators of the quality of the degrees provided by a specific institution and make it difficult for innovative practices and newcomers to enter the market. Accreditation therefore serves as a barrier to entry in higher education, stifling innovation and competition.

As a result of this conflict of interest, there are over 4,000 degree granting post-secondary institutions in the United States for the 2017-2018 academic year. About 600 four-year universities have gained accreditation since 2000 but only 18 have lost accreditation either

¹ "History of Accreditation", ACICS, <http://www.acics.org/accreditation/content.aspx?id=2258>

² Preston Cooper, "Examining Accreditation Commissioners' Conflicts of Interest", *Economics21*, November 2016, <https://economics21.org/html/examining-accreditation-commissioners%20%99-conflicts-interest-2131.html>

³ "Total Federal and Nonfederal Loans by Type Over Time", *College Board*, <https://research.collegeboard.org/trends/student-aid/figures-tables/total-federal-and-nonfederal-loans-type-over-time>

⁴ Mary Clare Amselem, "Free-Market Principles Should Guide Accreditation Reform in the Higher Education Act", *Heritage Foundation*, June 2018, <https://www.heritage.org/education/report/free-market-principles-should-guide-accreditation-reform-the-higher-education-act>

through closing or poor performance. Conversely, about 150 two-year institutions have lost accreditation since 2000.^{5, 6, 7} The current system continues to grant accreditation to demonstrably poor-performing institutions: Some institutions, for example, have 6-year graduation rates as low as eight percent and continue to operate as accredited colleges and universities.^{8, 9, 10}

Options for Reforming Accreditation

There are at least two ways that accreditation could be reformed. As a first step Congress should remove the link between accreditation and federal student aid. Decoupling the two would allow accreditation to return to measuring quality without the baggage of denying institutions access to student aid. Institutions could then use accreditation to distinguish themselves from others. A logical result would be an increase in competition: Unaccredited colleges could compete on a much more level playing field with accredited colleges, since both would have access to money. (Congress would need to implement another way to ensure the accountability of its subsidies without creating the same incentive structure that exists today, but this paper does not address this question.)

Congress should also allow the private sector to enter the accreditation system. Firms and businesses could accredit specific degrees and programs from specific institutions that they feel are of high quality, thereby introducing fresh competitive pressures into the higher education industry. Linking the private sector and accreditation would likely benefit students as well, by signaling which skills, programs, and degrees are the most valuable to the market. And allowing private businesses to enter the accreditation industry would blunt the conflict of interest that currently plagues accreditors and colleges.

The Lack of Information

While on average college has clear benefits for students, it is not unequivocally necessary for everyone. Students must weigh the many different aspects of post-secondary education to justify spending large amounts of dollars: Which college, which program, for what price, and for what outcome? While much information about college degrees and costs are accessible to those seeking it, the post-graduation earnings and debt, tabulated by type of degree, major, or program by university—i.e. outcome data—are almost entirely

⁵ "Number of Educational Institutions", NCES,
https://nces.ed.gov/programs/digest/d17/tables/dt17_105.50.asp

⁶ "Characteristics of Degree Granting Institutions", NCES, May 2019,
https://nces.ed.gov/programs/coe/indicator_csa.asp

⁷ "Colleges That Lost Accreditation", *The Wall Street Journal*, <https://graphics.wsj.com/table/ACCREDITlost>

⁸ "By the Number: Virginia Colleges with Lowest Graduation Rates", *The Center Square*, October 17, 2018,
https://www.thecentersquare.com/virginia/by-the-numbers-virginia-colleges-with-lowest-graduation-rates/article_f3382e30-d21d-11e8-9481-a73e23cda012.html

⁹ "Database of Accredited Postsecondary Institutions and Programs", *United States Department of Education*,
<https://ope.ed.gov/dapip/#/institution-profile/111188/111188002>

¹⁰ "How Accredited Colleges Stack Up", *Wall Street Journal*, May 2015, <http://graphics.wsj.com/accredit-2015/>

unavailable to prospective students. This dearth of information makes it difficult for students to weigh the potential benefits of specific college degrees with their costs.

The federal government has access to student outcome data but is not legally allowed to publish it due to the Student Unit Record Ban contained in the 2008 reauthorization of the Higher Education Act (HEA).¹¹ This provision of the HEA prevents the federal government from consolidating and publishing student outcomes data from private and public institutions. The private higher education lobby fought to include the Student Unit Record Ban to safeguard student privacy. Many argue, however, that the private education lobby feared the federal government would tie federal funds to student outcomes. In other words, the ban helps to preserve the current accreditation arrangements by not allowing the federal government to utilize student outcome data to determine which universities receive federal funding.¹²

Congress should consider repealing or otherwise altering the Student Unit Record Ban provisions in the HEA. More information about student outcomes, job placement, and salaries would allow consumers to make more informed decisions. The government and education providers would also have more information to make decisions on the supply side of the market. This process could work in tandem with accreditation reform by allowing accrediting agencies to focus on outputs rather than inputs to education.

A related change would require institutions to publish more information on the composition of student debt, and specifically the average student debt by degrees and programs. Prospective students could make better decisions on the practicality of attaining a degree from a specific institution by comparing their possible debt and the payoff from the degree itself. This information would also allow the public to better compare the value and worth of similar degrees from different institutions, further increasing the competitive price pressure in the market. Collecting and publishing more detailed data on student debt raises concerns about privacy, but these could likely be managed with sensible data protection protocols like de-identification. De-identification requires publishers of student data to review and remove all information that can be used to identify student names and other personal details, thereby preserving student privacy.

Innovative Alternatives to Higher Education

With worker shortages putting economic output at risk, the industries with the greatest shortages are working with government at both the federal and local level to create programs and partnerships in order to meet the demands of the labor market—even with the challenges noted above. As explained in prior [AAF research](#), the federal government has been putting resources toward job training and career counseling through its Employment Training Administration and as part of the Workforce Innovation and Opportunity Act.

¹¹ Clare McCann and Amy Laitinen, “College Blackout”, *Lumina Foundation*, March 2014, <https://www.luminafoundation.org/files/resources/collegeblackoutfinal.pdf>

¹² Ibid

Additionally, there are several new approaches in the private sector and in academic institutions. Programs modelled after the Swiss apprenticeship system, collaborations between industry leaders and community colleges, co-op models, and reforms to the college class credit system are all methods that are currently being tried to tackle the worker shortage problem directly.

Swiss Model

At the federal level, the Trump Administration has pledged to address skills gap challenges. As part of its National Workforce Strategy, the administration signed a [Memorandum of Understanding](#) with the Swiss ambassador to the United States and the Swiss Economics minister with the aim of learning from the Swiss apprenticeship model.

The [Swiss vocational and professional education and training system](#) provides students with the option to pick among 230 different professions to study. The apprenticeship takes between 3 and 4 years to complete, with 70 percent of all Swiss students choosing to participate. During the program, students combine vocational school courses with paid on-the-job training at a host company. Upon graduation students receive a diploma recognized by employers across the country.

Swiss-style programs are being tested in the United States on a smaller scale, with the most ambitious of them being [CareerWise Colorado](#). CareerWise serves as a convening organization that brings together federal, state, and private-sector funding to create a robust statewide training program. The program is currently in 14 school districts across the state with over 70 participating schools.

Private Sector – Community College Partnerships

More targeted approaches from the private sector and community colleges have also emerged to respond directly to employer needs. One such model is the Federation for Advanced Manufacturing Education (FAME). In 2005, FAME started its first program in Kentucky. What began as a partnership between Toyota and a single local community has spread across 12 states, currently serves nearly 750 students, and has engaged over 280 companies. FAME boasts an impressive 85 percent graduation rate, making it competitive with some of the best 4-year colleges in the nation.^{13,14}

The basic structure has students in community college courses some days of the week and working for sponsoring employers when they aren't in class. Working not only lets students practically apply skills learned in the classroom but allows them to earn \$25,000

¹³ "The FAME Career Pathway and AMT Program", *Federation for Advanced Manufacturing Education*, <http://www.themanufacturinginstitute.org/~/media/757AB9CEA4894BE3A123FC301300F39C/AMT%20Program%20Description%20for%20Employers.pdf>

¹⁴ "Highest 4-Year Graduation Rates". *U.S. News*, <https://www.usnews.com/best-colleges/rankings/highest-grad-rate>

to \$30,000 over the course of the program. Of that 85 percent who graduate, 85 to 90 percent are employed by the company that sponsors them during their apprenticeship.¹⁵

The strength of the FAME model comes from its flexibility: The private sector runs FAME, which means companies can directly and immediately implement changes to individual courses and the local program depending on their hiring needs. This flexibility ensures that the program is mutually beneficial for both students and firms. This model has other benefits, too. The community college partnership model allows for specific credentials to meet labor market needs, provides the community college with additional funds, and gives students the option to earn a certificate in their respective program as well as bachelor's and master's degrees.

Co-op Model

FAME's system is often referred to as a parallel co-op model, meaning students switch between work and classes multiple times within the same week. Other schools have been experimenting with a similar system called the alternating co-op model, which operates more like a traditional internship. Both the University of Cincinnati and Drexel University provide strong examples of successful implementation of this model. First developed in 1906 at the University of Cincinnati, the alternating co-op model allows student to gain hands-on practical experience alongside coursework while being compensated for the work performed with participating employers, just as with FAME. Rather than switching from work to class every few days, as in FAME, this model switches term to term, providing greater continuity of experience within terms.¹⁶

The University of Cincinnati now has its students working with over 1,500 companies across 30 different states.¹⁷ The university only charges students for the terms when they are taking classes, which allows the students to pay for the program with earnings from the co-op terms. Students can choose between a 4-year track or a 5-year track with more placements. In the 2017-18 school year, over 5,000 students were employed through Drexel's co-op program, with over 60 percent of students receiving at least one job offer before graduation and a 98.2 percent student employment rate.¹⁸ Both programs offer rapid skills development in addition to high earning potential for graduates.

Stackable Credits

¹⁵ "Information for Employers" *Federation for Advanced Manufacturing Education*, <http://fame-usa.com/information-for-employers/>

¹⁶ "What is CO-operative Education?", *University of North Alabama*, <https://www.una.edu/career/what-is-co-operative-education.html>

¹⁷ Andrew P. Kelly et al., "Building Paths to the Middle Class", *American Enterprise Institute*, April 2015, <https://www.aei.org/wp-content/uploads/2015/04/Building-Paths-to-the-Middle-Class.pdf>

¹⁸ "2017-2018 Addendum For Students", *Stenbright Publications: Drexel University* <https://drexel.edu/scdc/about/reports/>

While many of these options are popular, none directly offers a way to address the rapidly rising cost of a college education. Enter stackable credits—a way to work toward degrees, certificates, or credentials through short-term academic programs. The difference between this system and a traditional college credit system is that these credits can be “stacked” to be used in the future. Students can rotate in and out of the workforce as they pursue more credentials and do not accumulate the same kind of debt that they would at a traditional 2- or 4-year program.¹⁹ Students earn a series of smaller credentials as they work toward their degree, and the academic programs associated with stackable credits can take as little as a few weeks.

This system of stackable credits has been implemented at some community colleges, with the state of Texas seeing a fair bit of success. Brazosport College in Texas has two specific programs that use stackable credits to advance students’ career opportunities. Their process technology program, which serves skilled workers who typically already have a degree, reports a 97 percent job placement rate for graduates with first-year earnings close to \$90,000.²⁰ The Jumpstart program, designed for those with no postsecondary education, boasts a 93 percent completion rate and first-year earnings between \$16 and \$28 an hour.²¹

The stackable credit system not only allows for flexible and immediately relevant learning, but could also put pressure on colleges to address their costs, quality, and course relevance. Offering more choice to students allows them to be more discerning in their post-secondary education options and therefore to be more inclined to shop around before settling into a program. Massive open online course (MOOC) providers edX and Coursera are offering stackable credits, providing another way forward for online learning.²²

Challenges for Innovative Programs

These programs face a number of challenges. A major problem that touches all of the aforementioned alternatives to a traditional 4-year degree is that the vast majority of students don’t see them as viable options. Changing accreditation practices to measure quality and to open up federal funding options for short-term programs would provide both legitimacy and introduce much needed competition into post-secondary education. Broadening the types of programs that are Pell grant eligible would give students more options, and traditional institutions would need to compete with shorter and likely more career-relevant programs. The drive to compete could lead to lower costs or important

¹⁹ Ames Brown, "A New Way to Cut the Cost of College", *Forbes*, October 17, 2016, <https://www.forbes.com/sites/amesbrown/2016/10/17/a-new-way-to-cut-the-cost-of-college/#497c8b073bb8>

²⁰ Andrew P. Kelly et al., "Building Paths to the Middle Class", *American Enterprise Institute*, April 2015, <https://www.aei.org/wp-content/uploads/2015/04/Building-Paths-to-the-Middle-Class.pdf>

²¹ Ibid.

²² Dian Schaffhauser, "Stackable Credits May Not Boost Earnings", *Campus Technology*, January 1, 2018, <https://campustechnology.com/articles/2018/01/11/stackable-credentials-may-not-boost-earnings.aspx>

curricular changes to make courses more relevant and valuable to students preparing to enter the workforce.

A lack of information also handicaps these innovative programs. Allowing for greater access to program-specific earnings and debt data would allow prospective students to make more informed decisions, to graduate with less debt, and ultimately to be employed by picking programs with proven value-add. Furthermore, a general increase in information sharing among different initiatives could facilitate the spread of best practices by allowing these programs to compare operations, correct for inefficiencies, and implement each other's successful initiatives. More information on what does and doesn't work would spur greater innovation and faster improvement among and within new programs.

Each innovative program faces challenges of its own, too. While there is evidence to support that federal job-training programs are successfully finding employment for workers, they act as a blunt instruments to address a complex problem. An additional federal-level initiative like the Swiss collaboration likely will not fix the problems with other federal programs, and it could suffer some of the same challenges such as an inability to respond quickly to changes in the labor market. The challenge with fully replicating something like the Swiss model is that it would necessitate a complete overhaul of the U.S. education system at the federal level. Additionally, as it currently stands this kind of program focuses exclusively on K-12 recruitment without options for adults looking to gain new skills.

While more locally focused partnerships like FAME and co-op models can implement necessary curricular changes and meet industry needs more efficiently, they face a quality control and scalability challenge. In order to be successful, programs like FAME need to develop baseline requirements and maintain a standard level of rigor in order to build and maintain legitimacy among their private-sector partners.

The stackable credits approach faces similar legitimacy challenges in addition to a lack of demonstrated results. Some question whether this system provides any gains beyond simply what would come from any postsecondary credentials. A [report](#) by the Teachers College in Columbia University finds that the stackable credit system may not provide the gains people are seeking. The correlation between higher earnings and stackable credits is murky at best, although the authors of the report acknowledge that more research and information is needed to parse out the effects of completing a traditional degree versus a stackable credit degree. Greater information sharing about stackable credits and all other approaches working to address the skill gap challenge is needed in order to find and focus on what is actually working.

Conclusion

Previous AAF research has demonstrated both the [value of education](#) and the [skills gap](#) that the U.S. economy is facing. Increasing competition and innovation in post-secondary

education are the indispensable tools policymakers have for addressing the needs of the economy without exacerbating the existing problems in higher education. Competition and innovation are forces that can lower the cost of college into the future instead of just subsidizing its cost now.

Policymakers have several reforms available that could enhance the value of higher education. Revising the outdated accreditation system and encouraging the release of more information could spur more competition. Allowing the private sector to take an active role in workforce development could help address the country's skills gap challenge. Providing a level regulatory and funding playing field for educational alternatives in which students can enter a shorter degree program to gain high-demand skills sets them up for higher earnings in addition to providing them with greater job security and less debt than if they had gone to a traditional 4-year institution. Such reforms could encourage much-needed innovation in how American workers train for the future economy.