



# Grading Higher Education

Giving Consumers the Information They Need

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Bridget Terry Long, Harvard Graduate School of Education

December 2010



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# Introduction and Summary

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A college degree bestows numerous benefits upon individuals and society, including higher earnings, a lower likelihood of unemployment, an increased tax base, and greater civic engagement. For many, postsecondary training is the gateway to a secure job, nice home, and good schools for their children.

The problem is that going to college is an expensive investment. The cost of four years of college can exceed \$100,000, and over a quarter of four-year college students graduate with over \$25,000 of student loan debt. Moreover, the college investment is a high-risk proposition. While the average return on a postsecondary credential is substantial, justifying the cost in most cases, there is no guarantee that a person will benefit. Only half of college entrants complete a bachelor's degree and so many students forfeit the potential returns of such a degree.<sup>1</sup>

At the same time, student needs are changing. A majority of those attending college are no longer the traditional students attending immediately after high school graduation who are reliant on their parents for support. Instead, many are working learners who are trying to gain a variety of college-level skills while balancing family and employment demands.

In addition to being a costly and uncertain endeavor, attending college also requires one to make a complicated set of decisions that must be done in the appropriate order and at the right times. These decisions include whether and how to prepare, where to apply, which institution to choose, and how to finance the costs. There are numerous resources to help stu-

dents understand and improve their preparation for college, but there are far fewer tools or aids to help families navigate the college selection process.

Indeed, with little help families must sort through a complex menu of postsecondary institutions that differ in terms of level, sector, and focus as well as costs, admissions standards, and credentials and majors offered. Then they must put this information in perspective with their own personal situations and preferences.

Families must also discern differences in quality, or the likelihood that the school will impart learning, support student success, and result in future benefits. Such differences are hard to detect because measurements of quality in higher education tend to rely more on the characteristics of the entering student body rather than the value added by the higher education institution or the benefits realized by graduates. The difficulty in sorting colleges by characteristics and quality is compounded by complicated pricing structures, in which the net price each student pays often differs due to government and institutional financial aid.

In summary, the process of college choice involves simultaneously ranking options in multiple ways, relying on incomplete and uncertain information, and receiving little or no support for interpreting the facts that are available. These choices carry on throughout the enrollment experience as students must constantly reevaluate whether their enrollment decision is likely to pay off.

There are many negative and far-reaching repercussions due to the complexities of the college investment combined with the lack of clear information. Not surprisingly, years of research document the general lack of understanding families have about the college enrollment process and their college options.<sup>2</sup> This translates into keeping some students out of higher education, as concluded by the 2006 federal Commission on the Future of Higher Education.

Among those who do decide to attend, there is an overreliance on bad or incomplete sources of information, often at the peril of the student. The fact that nearly half of four-year college students do not graduate highlights why some college investments were probably ill-advised. Coupled with oppressive loan burdens and rising student loan defaults, the evidence of bad college choices grows.

Moreover, the mainstream press increasingly showcases stories of college graduates who find that they do not have the promised skills necessary to get a job. This was exemplified by a recent alumna who decided to sue her school for her inability to obtain employment after graduation.<sup>3</sup>

Colleges may also be culpable of deceiving students. In a 2010 report, the Government Accountability Office exposed a number of for-profit colleges making deceptive claims to applicants, including misleading them about college costs, accreditation, and graduation and job-placement rates. All of this complexity and misinformation results in students too often being “lured to colleges with the most energetic tour guide, the biggest reputation for partying, or the highest ranking in the popular press.”<sup>4</sup>

Some companies also exploit the heightened need for information by charging families excessive amounts for college facts that are freely available elsewhere if one knew how to navigate through the multiple sources that focus on higher education.

Faced with all of these troublesome trends, policymakers are anxious to find ways to give consumers better information about their educational options. In an effort to increase transparency, the federal Higher Education Opportunity Act of 2008 requires colleges and universities to post price estimates on their websites by 2011.<sup>5</sup> There also is an increasing emphasis on college graduation and subsequent employment, as demonstrated by the U.S. Department of Education’s recent decision to require career college and training programs to

show proof that their graduates are able to secure “gainful employment.”

Yet most of the current informational efforts are not geared toward the consumer. The Higher Education Opportunity Act, for example, dictates that the institutions with the highest prices must report to the Secretary of Education the factors that contributed to their price increases and the steps they have taken to hold down costs. As such, the information exchange is one between policymakers and administrators rather than one designed to inform and empower consumers.

There are other tools geared toward serving potential students, such as College Navigator, an online tool that gives families details on institutional characteristics, costs, and other information.<sup>6</sup> However, the families most in need of these types of resources have little awareness about the existence of these tools and limited online access.

Moreover, these tools are missing key pieces of information relevant to college enrollment decisions, such as after-graduation employment and earnings outcomes. While earnings are not a complete picture of the return on a college degree, schools with similar resources, student bodies, and admissions standards can have vastly different returns.<sup>7</sup> Such variation highlights the need for the types of information that will allow students to distinguish between options that may seem to offer the same benefit but actually have vastly different outcomes.

Given the negative effects suffered by families due to a lack of information and the fact that current informational efforts fall short, there is an urgent need to create new solutions. Better information is key to improving college investments. At the individual level, giving students and their families better information would enable them to avoid unworthy college investments that would leave them with substantial debt and little in the form of skills. Instead, information could help them identify the institutions that would maximize their chances for success.

Fostering better choices, and as a result, better educational investments, would also translate into greater productivity for our country and a better use of government resources given the subsidies students receive. Providing better information in a clear, organized manner would also produce significant time savings for families, as even the most well-informed currently have to comb through various incomplete sources for key indicators.

At the level of the educational institution, helping students and their families to become better consumers could increase pressure on colleges and universities to make improvements to their services, thereby raising college quality. Even modest effects would more than justify the costs of collecting and publishing better college information for consumers.

Higher education is indeed a complicated domain with significant challenges, but there is hope that empowering consumers with better information might be an effective way to improve outcomes. As shown by a study I completed with Eric Bettinger of Stanford University, Philip Oreopoulos of the University of Toronto, and Lisa Sanbonmatsu of the National Bureau of Economics Research, helping families with the college application process can be an effective way to improve outcomes.<sup>8</sup>

Improving consumer information has also been a critical part to getting better performance in other sectors. For instance, in the realm of K-12 education, research shows that providing information on school performance helped lower-income families to choose higher-performing schools.<sup>9</sup> Reports also help school principals to better evaluate the effectiveness of their teachers in helping students.<sup>10</sup> It is especially worth noting that such information solutions are far less costly than direct government regulation, which underscores the need to consider such strategies to support other higher education decisions.

Based on the many reasons why better information would result in better college investments, this paper puts forth a set of proposals designed to provide consumers with useful facts about higher education. The recommended strategy is multipronged and emphasizes first the need to expand the types of information collected and produced and then to change the way this information is communicated and distributed to potential students and their families.

As an initial step, the federal government should continue as well as expand its activities to produce the types of information needed to help individuals with their college decisions. There should be information on cost and affordability. In addition to the total cost and net price estimates currently produced, potential students would be given information on aid for low-income students, the debt levels, and loan default rates of previous students.

To reflect on the college experience, institutions would continue to report information on expenditures so that current and future students would know where their college is putting their money. Additionally, colleges would be required to give more detailed information on retention and graduation rates, which would then be listed relative to similar peer institutions.

Finally, and perhaps most important, information must be collected on the potential benefits and returns of an institution. Data should be collected on employment rates, salary information, and in acknowledgement that income is not a complete measure of a school's return, alumni satisfaction rates. Figure 1 summarizes the key pieces of information that would make up a college's scorecard.

Once the key facts have been collected, this information would then be packaged for families in more usable ways than current efforts. In this paper, I propose three main ways of presenting the college data, each increasing in the level of details given.

First, we must catch the attention of potential students and their families with clear, basic information that is meant to foster their interest in higher education and empower them to ask questions related to key factors of the investment. Such efforts would include a handful of facts shown in Figure 1 on costs, financial aid, and returns to different types of colleges, with the goal being to reach the significant numbers of individuals who avoid higher education due to misperceptions or general lack of understanding. This information also is designed to broaden the horizons of individuals who might have already been considering higher education with the hope that they will be motivated to seek out additional information about degrees or colleges they might not have originally considered.

The second level of packaging would continue the process by providing more detail, including more specific indicators of affordability for different student profiles and success rates. The more complete information would be presented in a way that encourages and facilitates comparison of postsecondary institutions. Depending on the potential student's interests or residence, a basic list of schools would be generated, but the individual would also be given the chance to add or subtract schools from that list to match their individual needs.



FIGURE 1

Key information for consumers

The college scorecard

Costs and Affordability Measures

Total cost of attendance	Average amount of debt for graduates
Average price net grants for low-income students	Loan default rate (three-year average)
Average price net grants for all students	

The College Experience

Total expenditures on instruction, academic supports, and student services per student	
<i>Institution's Rates</i>	<i>Success Rates of Peer Institutions</i>
1st-to-2nd year retention, full-time students	1st-to-2nd year retention, full-time students
Six-year graduation rate	Six-year graduation rate

Potential Benefits and Returns

Employment rate within six months of graduation
Salary information for graduates one year and five years after completion
Alumni satisfaction rate

Note: Low-income students are defined as Pell Grant recipients. Peer institutions would be defined as a set of colleges with similar missions, resources, and student body characteristics.

Finally, moving beyond the core indicators, the consumer would be given additional opportunities to customize and incorporate other factors and indicators that might be of interest. Colleges and universities could also be involved at this stage by providing indicators they feel speak to the specific attributes of their school.

Proactively disseminating the information is the third recommendation. Additional effort must be taken to translate and circulate it to an audience that may understand little about higher education offerings, pricing, financial aid, or quality. Therefore, the federal government should actively reach out to potential students where they live, study, and work rather than putting the responsibility on the individual to seek out the information on his or her own. This should be done through a series of partnerships with educational, social services, and employment organizations along with other

government agencies. For instance, the government should work with college access programs and youth organizations to reach students.

Government informational resources should also be bolstered and branded as the central clearinghouse for higher education information. This would reduce confusion, simplify informational efforts, and prevent the exploitation of families by companies that charge for what should be free. Innovative marketing should be used and schools and organizations should be encouraged to use the government tool so that they can avoid unnecessary duplication. The federal government should also implement procedures to audit the information and solicit feedback from consumers. Taken together, this paper will demonstrate in the pages that follow why consumers should be given the information they need to maximize their college investments.

# The Need for Reform: Using Information to Improve College Outcomes

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There are clearly strong concerns about the complex nature of the college investment. But three important trends underscore the growing need to help consumers with their college decisions. Skyrocketing costs and varying levels of college completion by students across educational institutions alongside the increasingly diverse enrollment patterns and goals of students dictate that something must be done to address this issue sooner rather than later.

## The changing college student and her needs

Many recent trends underscore the dynamic nature of post-secondary education in the United States, from the increasing presence of new populations, to the growth of more varied educational pathways, to the development of new ways to deliver education, to the evolution of institutional and government policy. For instance, demographic trends reflect that students are increasingly coming from communities of color.<sup>11</sup>

The profile of the typical college student has also changed in other ways in recent decades. Only 27 percent of students match the circumstance of what has been considered a “traditional,” dependent college student.<sup>12</sup> Many students now delay initial entry into college or attend part-time, and over three out of 10 undergraduates are age 25 or older.<sup>13</sup>

And importantly, students enter with intentions that can range from seeking a bachelor’s degree to earning a certificate to just completing a few courses. During the 2002-03 school year, for example, approximately 68.5 million people took

formal courses or training that were not part of a traditional degree, certificate, or apprenticeship program for reasons related to their job or career.<sup>14</sup> Students also increasingly stop out and then later return, attend multiple institutions, utilize distance education, and study outside of the traditional schedule, including summers, weekends, and evenings.

The increasing diversity of college students in terms of their backgrounds, goals, and needs necessitates efforts to improve college information. There is no single profile that captures the majority of students, but given the importance of identifying good potential matches likely to result in benefits, families must be empowered to sort through the thousands of college options and may need very individualized information.

Current educational patterns also underscore the fact that the higher education enrollment decision may involve attending multiple institutions over the course of a college career. Many students transfer between institutions, take occasional classes at schools other than their primary one, and re-enroll after periods of stopping out. Therefore, they need constant access to good information as they re-evaluate their choices at every turn.

## The rising cost of college

The rising cost of higher education is another factor that highlights the importance of providing consumers with better information. According to the College Board, the total cost of a public four-year college or university was \$15,213 in 2009-



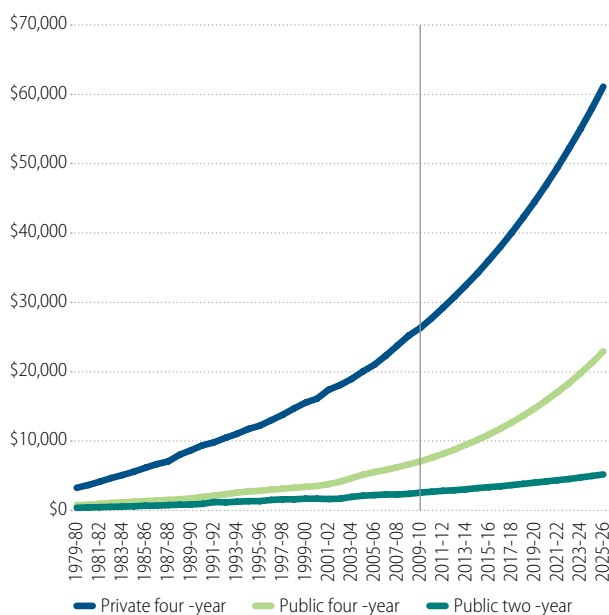
10, while private four-year colleges and universities charged an average of \$35,636.<sup>15</sup> These snapshots are the culmination of years of staggering increases in college prices.

Indeed, tuition and fees have risen dramatically during the last 30 years even after taking into account inflation. For instance, at public, four-year colleges and universities, tuition and fees grew 4.9 percent on average annually from 1999-2000 to 2009-10. Projections about future prices suggest that current upward trends will not abate, with the price of a four-year private institution expected to reach \$61,084 by 2025-26 and a public, four-year college costing 3.3 times more in just 15 years. (See Figure 2.)

FIGURE 2

### The rising cost of college

Average published tuition and fees in current dollars, in school years 1979-80 to 2009-10, with projections for school years 2010-11 to 2025-26



Source: College Board, "Trends in College Pricing 2010." The projections are based on calculations by the author assuming that tuition continues to grow at rates similar to the average of the last 10 years.

While the price of a college degree skyrockets, the ability of the American family to pay for such an expense is on the decline. Median household earnings have been largely stagnant over the last decade. And today, without any financial aid, the total cost of a public four-year institution amounts to about 30 percent of the median family income and over half for the average private four-year institution.<sup>16</sup> So while attending college remains important, it is increasingly difficult for families to cover the cost. "There is no issue that worries the American public more about higher education than the soaring cost of attending college," concluded the federal Commission on the Future of Higher Education in a recent report.<sup>17</sup>

Federal and state governments also commit substantial resources to higher education by reducing the cost through the use of financial aid. In 2008-09, over \$33 billion was spent by government sources on student grants alone. Families also take out a substantial amount in loans. In 2008, the last year for which data are available, families took on more than \$86 billion in college loans, with the average undergraduate student graduating with more than \$23,000 in debt.<sup>18</sup>

### Concerns about college completion rates

Given the substantial and growing cost of higher education and the complexity of the preparation and choice processes, college completion rates have long been a concern, especially for low-income students. Admittedly, even after four decades of financial aid policy, enrollment gaps by income continue to be troublesome, as do disparities by race and gender.

Recent data highlight that college completion is a major problem. Less than 60 percent of students at four-year colleges graduate within six years, and at some colleges the graduation rate is less than 10 percent.<sup>19</sup> Completion rates are especially alarming for low-income and minority students. Among first-time, full-time, degree-seeking undergraduates at four-year institutions, only 40 percent and 46 percent of African-American and Hispanic students, respectively, graduate.<sup>20</sup> While insufficient academic preparation is part of the problem, it does not fully explain differences in graduation rates by background. Among students who were identified as being college-qualified, only 36 percent of low-income students completed a bachelor's degree within eight years, while 81 percent of high-income students did so.<sup>21</sup>

A broader perspective suggests that the college completion problem has been getting worse over time. Trends suggest educational attainment has declined during the last couple of decades. John Bound, Michael Lovenheim, and Sarah Turner find that the increase in college access over time has not been met by a proportional increase in the percentage who complete a degree.<sup>22</sup> Their analysis suggests eight-year college completion rates declined between 1972 to 1992, with the most negative effects being felt by men who began at less-selective institutions.

Moreover, students are taking longer to complete degrees.<sup>23</sup> This means that the postsecondary investment can be even more costly than the assumed four to five years of full-time attendance.

The promise of substantial benefits from getting a college degree might justify an individual taking on the cost burden, but growing information about dismal college completion rates, along with persistent gaps in college access and declining college affordability, sparks a number of questions about the current condition of higher education in our nation. Critics question whether colleges are doing enough to ensure the success of their students, and there has been increased media scrutiny about the return to higher education.<sup>24</sup>

Moreover, several studies underscore that institutions with similar characteristics can have vastly different graduation rates. Mark Schneider documents that within each level of college selectivity on the Barron's *Profiles of American Colleges* scale, the return on investment (ROI) as measured by earnings can vary widely.<sup>25</sup> Therefore, even though many fear that information about college outcomes might unduly penalize colleges for factors that are not under their control, it is clear that some institutions do a better job than others with their resources and students.

Consumers need information so that they can choose wisely among their choices to maximize their chance of success. According to a 2009 study by Public Agenda and the Bill and Melinda Gates Foundation, “[a]mong students who don’t graduate, the college selection process is far more limited and often seems happenstance and uninformed.”<sup>26</sup> This seems to underscore the fact that many college dropouts made poorly

informed decisions. The study finds that among those who did not complete college, two-thirds say they selected their school primarily for its convenient location.

## The optimal investment: Challenges and the consequences of bad choices

The increasing diversity of college students, the high cost of higher education, and the varying levels of benefits students reap at different institutions all highlight the importance of giving consumers better information as they consider their vast number of choices. College choices are influenced by a complex array of interrelated factors, including background characteristics, educational experiences, and social contexts. To understand these decisions, researchers have mainly focused on the influence of college costs—tuition net financial aid—and potential benefits, such as future earnings potential because of the college degree.

In the simplest terms, students compare the costs of their college options to the benefits they expect to receive. If the net benefit, or the total benefits minus the total costs, is greater than the net benefit of other options (not attending college and entering the labor market directly), then the individual will choose the college option. Among the costs are tuition and forgone earnings, the income that an individual could have made had he or she decided to enter the labor market rather than attend school. On the other side, the benefits of higher education include increased earnings.

Additional nonmonetary costs and benefits must also be considered, such as the psychic costs of studying (i.e. the stress of being a student) and the consumption value of college (i.e. the benefits associated with the enjoyable parts of attending). From a societal point of view, there are also benefits that derive from having a more educated population. Crime rates fall and fewer people are dependent on government programs, such as welfare.<sup>27</sup>

While individuals are not assumed to be completely rational or to have full information about all their options, many studies document that this general college decision framework does accurately predict how changes in key factors, such as

college costs, influence the decisions of students. Students are sensitive to tuition prices, for example, and increases in tuition levels result in lower college access and movement toward less expensive schools.<sup>28</sup>

Still, there are puzzles about why large numbers of college-qualified students fail to attend any institution. Applying this decision framework, if students overestimate college costs or underestimate the benefits of a degree, then their decisions may seem internally rational though perplexing, given that costs are lower and benefits are greater than the person believes. The implication is that more accurate information could improve decision-making and increase college enrollment.

In the case of high rates of college attrition among those who do decide to attend, one wonders what mistakes are made during the college choice process that could be corrected with better information. Such information might improve a student's ability to identify institutions that will maximize their likelihood of success while avoiding schools with unreasonably high costs and/or high failure rates.

Given the complex, multidimensional process of navigating the preparation and admissions process, students first need information on how to prepare and apply to college.<sup>29</sup> But students also need information to help in making choices between various college options. Individuals must decide which institution to attend as well as what program of study to choose. Many families lack this type of information, and unlike the many efforts to provide information to help students prepare and apply to college, there are far fewer initiatives to support families as they discern between their many college options.

Following the basic framework above, individuals need information on costs (tuition, fees, living costs) and benefits (the likelihood of completion and employment outcomes) to help with their college choices. With varying backgrounds and goals, the exact facts that might be helpful could differ by individual. In fact, it is difficult to imagine that one set of information would serve the needs of all American students. Adult and nonresidential students, for example, would be less

concerned about room and board fees and more concerned about job placement and starting salaries, especially if they have dependents and are cautious about sacrificing time and resources for uncertain job prospects.

Personalized information is also needed due to the complicated pricing structures of higher education. Students often receive government or institutional aid and so do not pay the full list price. Yet there is a great deal of variation in the net price students face, with some families paying full price while others pay nothing. A key problem is that families have little way to predict exactly how much they will be charged based on their individual circumstances. Students may be eligible for need- or merit-based aid, and due to the way institutions package aid, the amount of financial assistance offered to students with similar backgrounds might differ not only across, but also within, schools. Aid packages also might differ over time, as some aid is available for multiple years while other aid is not. In terms of loans, schools and lending companies often do not clearly explain the total price of a loan or the likely monthly payment requirement after graduation.

While there are key pieces of information that could improve families' abilities to weigh their college choices, delivering this information is not a straightforward task. Families need help sorting through facts, understanding what they mean, and learning how to prioritize the information. Even under the best conditions, there are limits to the amount of calculations and problem-solving that a person can do.<sup>30</sup>

When faced with choice, individuals struggle to determine which factors are most important, gather all of the relevant information on these factors, and appropriately weigh the costs and benefits of these factors in a final calculation. The "pure cognitive overload" of the college enrollment and choice decisions may result in less than optimal outcomes as individuals can be influenced by idiosyncratic features in the ways choices are structured and presented. In other words, the intended recipients may not know how to use or analyze the information and so end up making puzzling decisions. Mistakes can result, such as procrastination or a tendency to base decisions on easily available information that may not be accurate.

These types of decision anomalies are particularly relevant to college decisions. Several studies have found students undertaking surprisingly minimal steps when making educational decisions, instead resorting to trial and error. For instance, Grubb found that students often “develop information by taking courses almost at random.”<sup>31</sup> And in a 2004 study, Avery and Hoxby tested whether high-achieving students respond to their menus of colleges and financial aid offers like rational investors trying to maximize benefits and minimize costs. While the typical student chooses his college and responds to aid in a manner that is broadly consistent with maximizing benefits and minimizing costs, there were several anomalies related to how students reacted to loans and the superficial aspects of a grant.<sup>32</sup>

Interpreting institutional data is also difficult. Take, for instance, information on college and university expenditures. While it might be helpful for a student to know the amount a school spends on its students with the hope of getting some sense of the resources available, institutional expenditures are not reliable indicators. Even when the total amount is the same, institutions choose to utilize their resources in different ways, from bolstering instructional supports to supplementing faculty salaries to funding research. Some of these options might positively affect the quality of the student’s experience while others might not.

Furthermore, given the aggregated nature of information about resources and other inputs, it is difficult to discern what any particular student will benefit from within an institution of thousands. Better, more detailed facts are needed to truly give families information that might be helpful as they sort through their options.

Without easily obtainable information and a clear map of the key factors worth considering and how to process them, there are many examples of decisions that probably represent “bad matches.” As already noted, almost half of college students who attend a four-year institution fail to get a degree. Meanwhile, these students carry significant amounts of student debt that is not likely to be justified without receipt of a college credential.

Even among college graduates, the degree does not always justify the cost. According to a 2004 study by the American Council on Education, one-third of borrowers faced debt burdens of more than 8 percent, the level above which financial aid researchers consider debt burden to be a concern.<sup>33</sup> Loan default rates have also been climbing in recent years. In 2008, 7 percent of students defaulted on a government loan within two years of leaving college. Among for-profit colleges, nearly 12 percent of students could not pay back their loans.

This reflects poorly on the benefits students likely received from these schools, as emphasized by Secretary of Education Arne Duncan: “While for-profit schools have profited and prospered thanks to federal dollars, some of their students have not. Far too many for-profit schools are saddling students with debt they cannot afford in exchange for degrees and certificates they cannot use.”<sup>34</sup>

In additional analysis looking over a longer period of time, the *Chronicle of Higher Education* found that one in every five government loans that entered repayment in 1995 has gone into default. The longer-term default rates were especially high among community college students (30 percent) and those who attended a for-profit institution (40 percent).<sup>35</sup> Surely, the high incidence of students being unable to pay back their government loans signifies that there are widespread problems with how individuals are choosing their colleges.

Better information could help students avoid the mistake of choosing an institution that has a low probability of paying off. We must instead empower families to make better decisions by helping them to understand the institutions that are likely to meet their needs and result in higher returns. Addressing misinformation and low levels of awareness about actual college costs and returns would help to foster more attention on the success rates and employment outcomes of institutions.

Any information system would also have to deal with the difficulty of being applied to institutions with differing missions, student bodies, and goals. This further clouds our understanding of institutions, and so any effort needs the additional nuance of taking into account institutional mission and aims.

It is also important not to treat the colleges and universities as static entities. Like individuals, they react to incentives and changes in costs and benefits.

This is a particular concern when considering using information to bring about different outcomes because, rather than acting in ways that might benefit students, the institutions might do things to undercut the intended effects. A prime example of this is the *U.S. News & World Report* rankings system. Students respond greatly to the rankings, and so colleges have incentives to maximize the indicators used in the calculations. In fact, research documents the games colleges have played to inflate their standings.<sup>36</sup> In order for information to be useful to consumers, any solution must take into account the reactions of the schools.

Not all of the challenges related to the provision of information are solvable. Uncertainty about the future also wreaks havoc on attempts to use information to enable better decisions. No one knows for sure what the return to higher education will be four years from now, let alone for the next 40 years that a college graduate might reap the returns. Even less is known about the return to particular majors or schools. As noted above, uncertainty and risk are inherent in the college investment decision, making it difficult to tell students with any confidence about their future chances given a particular pathway or opportunity. While one might rely on data about previous classes of students, this information still requires the individual to make a guess about whether and how those returns might change for future college attendees.

### Why current efforts are insufficient

Practitioners and policymakers have long acknowledged the need for more and better information about higher education, and there have been multiple attempts to increase transparency. Underlying these efforts are several large data collections. The U.S. Department of Education collects the most complete data as part of the Integrated Postsecondary

Educational Data System, or IPEDS. Institutions submit information about their characteristics, enrollments, completions, finances, staff, and other resources, and the data are made public, mostly to be used by institutional and academic researchers.

The Department of Education produces a series of reports with summaries of the data. The College Board also has an annual survey of colleges, which emphasizes admissions requirements and student body characteristics. These data are used to produce reports, including its annual Trends in Higher Education series. A third, growing source is the National Student Clearinghouse, a central repository of enrollment and credential records, which can be used to calculate completion rates, even across institutions. Together, these three data sets provide the background for most of the tools and information campaigns that currently exist. (See Figure 3.)

The bottom part of Figure 3 provides examples of some of the tools meant to help consumers make higher education decisions. Several use IPEDS data to create websites that allow students to search for possible colleges. One example is College Navigator, which is also sponsored by the Department of Education. Some of these websites provide more information than others. For instance, CollegeInSight, which is maintained by the non-profit organization TICAS, gives information on college affordability and student success rates. College Results Online, created by Education Trust, provides detailed graduation rate information for multiple groups of students and contextualizes this information relative to a group of colleges with similar characteristics, student bodies, and resources.

While these tools are a step in the right direction, each is limited in some way. The data they report, for example, may give an incomplete price. In College Results Online, the graduation rate information is limited to first-time, full-time, bachelor's degree-seeking freshmen who complete their degrees from the institution where they originally enrolled. The rates do not include part-time students or the percentage of students who enroll and transfer to another institution.

FIGURE 3

## Major informational sources and tools on college options

	Source/Originator	Purpose and Items Collected
<b>Data Sets</b>		
Integrated Postsecondary Educational Data System, or IPEDS	Information from colleges and universities submitted to the U.S. Department of Education	Comprehensive database of institutions and educational organizations whose primary purpose is to provide postsecondary education. Built around a series of interrelated surveys to collect institution-level data on characteristics, enrollments, completion, faculty, staff, finances, and academic libraries.
College Board Annual Survey of Colleges	Web-based survey of nearly 4,000 accredited undergraduate colleges and universities in the U.S.	The survey collects information on the characteristics of each college, including programs, costs, application requirements, and deadlines. This information is then used in reports, such as the annual Trends in Higher Education Series, and other tools, like the College Board's College Search website (see below).
National Student Clearinghouse	Central repository for more than 3,300 partner colleges and additional secondary schools	National source of comprehensive enrollment, degrees, diplomas, and certificates covering 92 percent of U.S. college students; can be used to track students across institutions to calculate degree completion rates.
<b>Informational Tools</b>		
College Navigator	U.S. Department of Education	Allows individuals to search for colleges using information from the IPEDS dataset.
KnowHow2Go	American Council on Education, Lumina Foundation for Education, and the Ad Council	Multiyear, multimedia effort designed to encourage students to prepare for college, beginning in the 8th grade; focuses more on preparation.
College Search	College Board using data from its Annual Survey of Colleges (see above)	Aims to help students find colleges by generating a list based on student preferences.
College Results Online	Education Trust using IPEDS data	Allows users to select a college and compare its graduation rate outcomes to similar institutions (determined based on a set of institutional characteristics).
College In Sight	The Institute for College Access & Success (TICAS)	Provides data on college affordability, diversity, and student success so that users can find, compare, and analyze their options.
EducationPlanner.org	American Education Services (AES), a provider of student financial aid services	Database on nearly 4,000 two-year and four-year colleges and universities across the U.S. and Canada; can use a variety of search criteria to find a match, including location, tuition, average GPA of incoming freshmen, religious denomination, and more. Also has a career assessment tool.



This type of limitation may be beyond the control of the creator of the tool, but another serious concern for all the sites is how they are disseminated. While KnowHo2Go includes television, radio, and outdoor public service advertisements, the other sites mainly depend on students seeking them out or possibly being directed by schools or college access organizations. This limits their penetration into the market of potential beneficiaries.

It is also worth noting that most online tools are much more focused on the activities needed to prepare for the college application process, such as what courses to complete and exams to take, and when to complete certain applications. KnowHow2Go is one example of this, as it emphasizes activities for 8th- to 10th-graders, but far more websites and tools were uncovered but not included in Figure 3. Very little information is available anywhere on outcomes such as salaries or alumni satisfaction, two key factors that could be important in the decisions of students.

There also are attempts to use information to bring about accountability in higher education at the state level. States as different as Arkansas, Florida, Illinois, Kentucky, and Minnesota have experimented with tying postsecondary sup-

port to performance on a set of indicators. Several states highlight retention figures and graduation rates. Licensure and exit exams for the few fields that have them are also part of the criteria.

Given the needs of states, there is also some emphasis on workforce indicators and research. These efforts have not been particularly successful, though there are several clear lessons from these experiences that apply to this context. The first is the importance of having good information. Without informative basic indicators and a system that helps to interpret that information, it is difficult to believe that an accountability initiative would have much success.<sup>37</sup>

It is also important to choose appropriate measures. States tend to focus on aggregated measures, such as the total number of degrees awarded or the average credits taught by faculty. As a result, very little attention has been paid to important outcomes such as student learning.<sup>38</sup> In past efforts, often the incentives were not large enough or sustained to prompt much of a response from the colleges and universities. Yet one positive byproduct of these accountability efforts is an increase in the amount of information that educational institutions now publicly report.

# The Proposal: Improving College Information for Consumers

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Clearly, there is a need for consumers to have more and better information to help support their decisions concerning post-secondary investments. Most government initiatives are too focused on the perspectives of policymakers and the institutions rather than the consumer, and most other tools do not do enough to address this great need. The challenges to using information to bring about change in higher education are also plentiful.

Still, there are opportunities for great improvement. Therefore, I propose a multipronged strategy that would empower students and their families to make better college choices and optimize the use of their private resources along with the public subsidies that support the pursuit of postsecondary credentials. Specifically the federal government should:

- Continue to expand its activities to produce the types of information needed to help individuals with their college decisions;
- Put together this information in more usable ways based on the lessons learned from previous attempts to improve information and the successes realized in other domains;
- Actively disseminate the information to potential students where they live, study, and work— rather than putting the responsibility on the individual to seek out the information on his or her own. This should be done through a series of partnerships with educational, social services, and employment organizations along with other government agencies;

- Take the lead in implementing, coordinating, and assembling the needed information; and
- Implement procedures to audit the information and solicit feedback from consumers.

The sections below expand on the details of each of these recommendations.

## Expand the information collected

Figure 1 on page 4 highlights the most important pieces of information to communicate in a basic college scorecard, and Figure 4 on page 15 outlines all of the data that need to be collected and possible sources for that information. This list is motivated by the key factors that influence college decisions and might help consumers to choose the options most likely to help them meet their goals. There are four main types of information.

### Basic information

Basic information should be provided on institutional characteristics to help students focus on the set of institutions that have the programs of study they want. This information on basic school characteristics will also help students to match with colleges that fit their preferences and academic achievement levels.

## Affordability

Information on affordability is necessary to help students understand the net cost of the postsecondary investment, not only for the average student, but also for several common student profiles. This would give some sense of how the cost varies by background and, it is hoped, encourage the student to ask more questions of the institution about his or her own situation.

## Resources and inputs

To give a sense of what the student would experience at the school, there should also be details on college resources and inputs. This includes expenditures, instructional supports, and student success rates, both for the school and for similar peers.

## After-college employment outcomes

Information about after-college employment outcomes is key to determining whether the investment is worthwhile. This includes earnings information and feedback from employers. But recognizing that employment and earnings are not the only benefits of an education, I also propose to collect information from alumni about their perceptions of nonmonetary benefits. This is also relevant for those in public service careers or other pursuits in which income is not a major focus, such as the humanities and the arts.

There are a variety of sources of information on all four types of this information. (See Figure 4.)

The choice of indicators is also influenced by the need to balance breadth, given the complex nature of the college choice decision, with the threat that too much information could overwhelm a consumer. For instance, personalized information can be quite important but would be cumbersome to provide for too many student profiles. Consequently, only a couple of scenarios should be reported, including the mean or median for the student body as well as that for Pell Grant recipients and families at the median income level.

By giving these snippets of information, the goal is to provide enough facts to encourage and empower consumers to seek

out more information and perhaps focus their questions on key factors that might matter for their situations. Much of this information is already available in some form or another, but other indicators would be new collections or would have to be collected for a wider range of institutions than currently done.

Because colleges differ in their missions, resources, and student bodies, it is also worth noting that some caution is warranted when comparing some indicators across schools. Open admissions institutions, for example, which serve many students in need of remedial and developmental coursework, are expected to have different completion rates than selective institutions that accept only one in ten applicants. Yet as previously discussed, even institutions with similar student bodies and resources can have very different rates of student success. A priority, then, should be to inform consumers about these important differences. For instance, the proposal suggests providing consumers with information on the success rates of peer institutions following the example of the Education Trust.

## Package the information in clear, usable ways

Providing consumers with the right information will be pointless if they are unable to comprehend, absorb, and use that information. Therefore, I urge the government to carefully construct how this information is presented and avoid the type of language that is familiar only to administrators and researchers. Again, a key issue will be balancing complex, nuanced information with simple, easy-to-understand facts.

Other industries successfully address this challenge and effectively provide complicated information to support consumer decisions. One case in point: Justine Hastings and Jeffrey Weinstein found that giving low-income families information on school test scores changed the way they made decisions under a school choice plan.<sup>39</sup> This information significantly increased the fraction of parents choosing higher-performing schools.

Or consider the health insurance industry. Research by Michael Chernew et al. finds that giving consumers information on health plan ratings caused employees of a Fortune 50 company to take action to avoid lower-rated options,<sup>40</sup> and research by M. Kate Bundorf et al. notes that couples seeking fertility treatments also respond to information on clinics' birth rates.<sup>41</sup>

FIGURE 4

## The expanded data collection

### New measures to help consumers make decisions about higher education

Variables	Potential Source
<b>Institutional Characteristics:</b> <i>To help students focus on the set of institutions that have the credentials they seek and then target schools that fit their choice preferences and are likely to admit them based on academic performance.</i>	
Level, sector, available degrees/credentials/programs of study	Collected in IPEDS
Size, location, religious affiliation, percent living on campus	Collected in IPEDS
Student body characteristics (gender, race, ethnicity, age distributions)	Collected in IPEDS
Selectivity measures and Student Body achievement levels	Collected by the College Board
<b>Costs and Affordability Measures:</b> <i>To help students understand the cost of the investment, not only for the average student, but also for several common student profiles</i>	
List price (tuition, required fees, room and board, and the total budget)	Collected in IPEDS
Average (or typical) aid package for a Pell Grant recipient	Need to survey schools
Average (or typical) aid package for a family at the median income level	Need to survey schools
Average amount of debt for graduates: Mean for the student body and Mean for Pell Grant recipients	Calculate using DOE sources
Average amount of debt for graduates of peer institutions	Calculate using DOE sources
Loan default rate (three-year average)	Calculate using DOE sources
<b>College Experience and Value-Added Measures:</b> <i>Information on what students receive at the school and how the school compares relative to peers</i>	
Financial resource measures: Total expenditures per student and expenditures on instruction, academic supports, and student services	Collected in IPEDS
Instructional indicators such as faculty characteristics, class size, student satisfaction	Collected in IPEDS and by College Board
Student success measures such as course completions, retention rates, graduation rates, and time to degree. Should be calculated for multiple profiles (full-time, part-time, dependent, independent, and transfer students)	Expand IPEDS and use other sources to do additional calculations
Success rates of peer institutions with similar resources and student bodies	Compiled by College Results Online
<b>Potential Benefits and Returns:</b> <i>Information on the potential returns to the school in terms of employment and salary, both in the short and long term, and how this compares to peer institutions</i>	
Employment rate within three and six months of graduation and the rates for a set of peer institutions	School survey or government sources
Salary, industry, and occupation information for graduates one year, five years, and 10 years after completion	Could use government sources
Alumni survey on satisfaction with the program and benefits realized after receiving the degree, including nonmonetary considerations	New collection needed or supplement institutional efforts
Employer survey on satisfaction with graduates and the usefulness of the degree or credential	New collection needed

Based on the experiences of other industries, higher education could benefit greatly from improving not only the availability of information but also how it is communicated to consumers. One lesson from other domains is that it is important to contextualize information, especially when outcomes may be the result not only of the focal institution or entity (the hospital or teaching being evaluated) but also who is being served (the type of patients treated or students taught).

In the case of fertility clinics, for example, consumers also showed an ability to take into account patient mix when evaluating clinics, as this influences the likelihood of success.<sup>42</sup> Likewise in higher education, consumers need help interpreting indicators such as graduation rates.

FIGURE 5

### Examples of consumer information in other industries

Context	Information	Effects
<b>K-12 Education</b>		
Lower-income families facing a public school choice plan	Direct information on school test scores	Hastings and Weinstein (2008): Receiving information significantly increased the fraction of parents choosing higher-performing schools
NYC public school principals	Value-added performance measures of teachers along with brief training on how estimates were constructed	Rockoff, et al. (2010): Performance data provided useful information to principals in constructing employee evaluations and using these evaluations to improve productivity
<b>Health Insurance</b>		
Employees of a Fortune 50 company	HMO health plan performance information	Chernew, et al. (2008): Small but statistically significant effect on health plan choices with employees willing to pay more to avoid plans with below-average ratings
Large employers across markets	Health plan performance information	Chernew, et al. (2004): Employers are more likely to offer plans with strong absolute and relative performance measures.
<b>Health Care</b>		
U.S. metropolitan areas 1996 to 2003	Public disclosure of a clinic's three-year lagged birth rate	Bundorf, et al. (2009): Clinics with higher birth rates had larger market shares after, relative to before, the adoption of report cards. Consumers also took into account information on patient mix when evaluating clinics

Therefore, it is important not only to collect information on these factors for peer institutions but also to clearly communicate this relative information in a meaningful way as well as to perhaps provide additional context on the general norms for a particular sector, field, or area. The process of translating the indicators for consumers must go beyond just listing the information in a table.

Clearly, there are numerous types of information that would be helpful in the college choice process. A key challenge is then balancing the need to provide information relevant to a particular individual while not inundating the market with too much information that could be overwhelming and difficult to sort through. A major challenge one must confront in an attempt to empower consumers with information is not only providing the right detail but also providing it in a way that is useful.

I propose three main ways of presenting the college data. Start by first “hooking” consumers with basic information, then educate them about more of the facts concerning specific institutions, and finally, allow them to customize and get the exact details that might be helpful in their decisions.

Stage 1 would include basic facts about institutional characteristics, cost, and a few indicators of success. The amount of information would be small enough so that multiple schools could be shown on one page along with state-level aggregates. This information is meant to grab the attention of families who did not think college was possible and to broaden the perspective of potential students who may have been approaching higher education with a limited or incorrect view.

Stage 2 would entail disseminating this short list of information to students in their communities. Having captured the attention of potential students, these individuals would then be directed to tools with more details. This second level of packaging would include the longer list of items in Figure 1 on page 4. A basic list of schools could be generated, but the individual would also be given the chance to add or subtract schools from that list to match his or her specific needs.

The third level of information would allow for more customization. Students could seek out other indicators, and institutions would be encouraged to provide additional facts they feel are pertinent to their school or a specific program.

Packaging information about institutions of higher education in this way should also help prompt potential students to look beyond their preconceived notions. For instance, if a student is focused on a particular college that happens to have a poor graduation rate, then technology-based tools could offer to provide information on similar peers with better rates of success. This would mirror some of the tools we see in the private sector, which suggest another product or book a consumer might consider based on his or her viewing and purchasing patterns.

When possible, the information should also be personalized. If the state of residence is known, for example, either due to where the information is being distributed or if the individual volunteers this information, then the default list of colleges produced could focus on popular local options. If low-income students are being targeted, then information about financial aid and the outcomes of Pell recipients could instead be highlighted.

### **The dissemination strategy: Heighten visibility and actively reach out to potential students**

While I hope that multiple organizations will join and partner with the federal government to distribute helpful information to consumers, the federal government should bolster its position as the central repository of higher education information. In its informational campaigns, it should make clear that individuals should consult its tools first. The reason: to make sure consumers are aware of all that is available to them for free.

This might help families to avoid unnecessarily paying for this information, as is presently the case. By becoming the central clearinghouse, the hope is that we will also avoid unnecessary duplication. Organizations and actors who hope to provide help with college will not need to waste time and resources collecting, translating, and distributing this information so they can focus on providing direct assistance.

While the federal government should become the central clearinghouse for this information, it is very important that efforts do not rely on students seeking out a site or resource center based on their own levels of awareness, motivation, or initiative. Putting resources on the Web may be very helpful for students who are aware of their existence and who already have the belief that college is possible, but such a format



requires the individual to be knowledgeable, expect to attend college, and willing (and have the technology necessary) to take action. As such, these efforts are unlikely to help those who might benefit the most from an increase in consumer information.

Instead, reaching out to potential students in their own communities could have a large impact.<sup>43</sup> Therefore, in addition to the conventional ways and places of reaching potential students, the federal government should pursue ways to reach out to consumers where they work, live, and play.

Using the short list of important facts, the federal government could first partner with community organizations that work with consumers, such as social service agencies and tax preparation firms. They could also distribute information through employers following the formats used by human resource functions. The information could also be included in important mailings, such as tax forms, the annual Social Security newsletter, and Department of Motor Vehicle notifications.

Depending on the site or mailing, the information could even be personalized according to the characteristics of the recipients. If the potential college attendee is working with a social service agency that serves low-income families, then the college information could emphasize financial aid. As is implied by this proposal, it is important for the college information to be distributed to individuals early and often with the hope of influencing preparation decisions and making the information second nature.

## The role of the federal government

The role of the federal government would be threefold. First, it must spearhead data collection and assembly. Second, it must construct the tools necessary to translate this information with the goal of informing consumers and stressing the information believed to have the greatest public benefits. Finally, the government should provide the raw data to others for their own use, possibly including tools for specific types of students or fields of study. In these three ways, the private sector would be encouraged to find additional ways to present the information in accessible forms.

Generally speaking, government informational resources should be bolstered and branded as the central clearinghouse for higher education information to prevent the exploitation of families by companies that charge for what should be free information. In addition, innovative marketing should be used by the federal government and college access programs to inform consumers. Programs and schools should be encouraged to use the government tool so that they can avoid unnecessary duplication.

It is important to note that by providing this information, the government is not giving a warranty on a student's higher education investment. As the future is unknown, there are no guarantees on college returns. Moreover, most of the information we have on the returns to education are correlational, not causal, due to selection. In other words, reported returns are based on the special group of people who previously make a certain decision. As others alter their behavior to make the same decisions, they may realize different returns due to their varying backgrounds and experiences.

And it is important to recognize that the federal government will set the standard in the market. Although colleges may try to customize some of the indicators they make available on their own websites and publications, the basic indicators produced for each institution should be easily comparable. The exact format of the short and long versions of the information should be field-tested with potential beneficiaries, and as with any other product being created and marketed to consumers, students and parents should be recruited to provide continual feedback on the tool so that it can be refined over time.

Finally, the federal government should also implement procedures to audit the information to ensure the quality of the data, similar to the way *U.S. News & World Report* handles its ranking system. This may involve penalties for infractions.

# How Would It Work?

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## Implementing the recommendations

The federal government is in a unique position to implement the proposals. It has the ability to require certain types of behavior as well as coordinate across institutions and sectors. And it is essential that all institutions comply, especially those with potentially the most to hide. These recommendations could be enforced in a way similar to IPEDS. Specifically, the Higher Education Act of 1965, as amended, requires that institutions that participate in federal student aid programs report their data in this annual survey, and similar legislation should be created to require the data collections and coordination described here.<sup>44</sup> Institutions that fail to comply could lose their ability to offer their students federal financial aid. The Department of Education would need to take leadership in compiling the information, linking it with other sources, such as information on loan default rates, assembling it, and disseminating it to families.

Another reason the federal government should lead these efforts is that it is already the repository for much of the information. While there are many sources of information on higher education, the sources are poorly organized. What is missing is central leadership to fashion the information to the benefit of the consumer. Invoking President Kennedy's thoughts on the fundamental rights of consumers as articulated in a 1962 speech, an individual has the right to be informed, defined as the right "to be protected against fraudulent, deceitful, or grossly misleading information, advertising, labeling, or other practices, and to be given the facts he needs to make an informed choice."<sup>45</sup> In this case, given current

problems and market failures, the federal government is the only one who can guarantee this right.

## Collecting and assembling the data

The good news is that the federal government and several other organizations already collect a great deal of these data about higher education and postsecondary institutions, and this information should be fully utilized. As an initial step, these organizations should compare the types of information they collect and the sources used so as to avoid unnecessary duplication and reflect on innovative ways to compile accurate information. The federal government is (and should be) the primary source of the most basic facts, but it should leverage the efforts by other groups and organizations that use good survey techniques and calculate important facts using other government sources. The resulting information from all parties should be shared and compiled into a central repository given mutual interests.

Of the pieces of information that are currently not collected, steps are presently being taken to improve the outcome information. These efforts should be continued but pushed at an even faster pace with the expectation of greater depth, as reflected by the items listed in Figure 1 on page 4. In addition to graduation rates for first-time, full-time students who remain at their initial institution, data need to be collected on the graduation rates of students who do not fit this profile, including part-time, older, or transfer students. More information is also needed on completion rates for credentials

below the associate's degree. Partnerships with the National Student Clearinghouse and more coordination at the federal level could help to support these kinds of initiatives.

Additionally, data collections should be expanded to include more micro-level information on affordability and future earnings, two key factors that are part of the cost and benefit considerations of individuals. While aggregate information is available on total financial aid resources, more detail is needed on how these resources are distributed among students.

Better projections need to be made about the net prices different kinds of students face—for example, Pell recipients versus families at the median income level—rather than just reporting the average net price. In terms of information on potential college benefits, it would be useful to get more feedback from graduates on their outcomes both short and long term, monetary and nonmonetary. At the most basic level, employment indicators would also be helpful. Employers could also provide extremely useful information on the performance of graduates as well as perspective on whether the school's programs are designed to prepare students for the workforce.

One must acknowledge the costs of increasing data collections. Institutions of higher education already voice their concerns about the increasing burden of submitting additional information as part of the federal IPEDS survey. Yet providing leadership and training, and coordinating with software providers and state or campus-wide data system efforts would help to address these issues, according to a 2010 study by the Government Accountability Office, the investigative arm of Congress.<sup>46</sup>

Moreover, initial investments in the necessary data infrastructure would pay off for years to come. Getting information about indicators such as earnings would be challenging, but it is encouraging that 26 states already collect some employment-related data on college graduates, according to a 2010 survey. These data include information on salary and industry and are collected by linking student databases with state labor data.<sup>47</sup> GAO argues that these efforts could be expanded by increasing state-to-state data sharing or using third parties to help with the process. Additionally, the U.S. Department of Education needs to clarify the means by which schools and states can share information under the Family Educational Rights and Privacy Act (FERPA) as confusion about the law delays current efforts.

## Evaluating the effects of the proposal

As with any major initiative, there should be a clear evaluation component to determine which information is most relevant to consumers and whether and how large of an effect different kinds of information have on outcomes. One possible study would be to first measure the degree of misinformation among the public. Although it is clear families need more information, it would be useful to have more information on what potential students believe about costs, job prospects, and salaries.

Once collected, this could be compared to the actual figures. Another option would randomly vary the types of information students receive, and then track their outcomes to determine whether individuals counseled with certain details or using a particular format have better outcomes than others. For instance, we might observe higher graduation rates as a result of better matches or a lower debt-to-salary ratio.

## The potential benefits of the proposals

Implementing the proposals would take effort, time, and money, but the benefits are sure to exceed the costs. There are a number of benefits to consumers. Foremost, they would have the tools necessary to avoid unworthy college investments that would leave them with substantial debt and little in the form of skills. Instead, information could help them find better matches for their interests and family situations while also spurring them to choose institutions that have stronger records of success with students. This would result in cost savings for the government and taxpayers, as unnecessary subsidies, grants, and loans would be avoided.

Additionally, with better educational investments stemming from better choices, there would be productivity gains for the country. By providing information in a clear, organized manner, the proposals would also save families a great deal of time.

By enabling consumers to “vote with their feet,” we would be creating an instant market feedback mechanism and thus encourage colleges to adjust their practices in response to consumers. This could change the market for higher education similar to the way improvements in consumer information have changed other industries. Even if this effect is only

a fraction of a percentage in terms of college expenditures, it would justify the costs of the proposals, as outlined below.

Still, for such effects to be beneficial, it is crucial to make sure competition focuses on the right activities and outcomes. For instance, it would be detrimental for schools to alter their admissions policies as a way to increase their graduation rates, so as discussed above, it will be important to interpret such indicators relative to peers.

### The costs of the proposals

It would be difficult to determine the exact costs of the proposals, but there are several clues to a more informal, “back of the envelope” estimate. The main cost would be data collection. These costs would be incurred by the educational institutions, which would have to comply with federal reporting requirements, as well as taxpayers supporting the government work. Based on costs incurred for other kinds of reporting and datasets, formatting and publishing the information would be another expense, though after the initial design, information technology is relatively inexpensive, which means the marginal cost each year would be minimal.

There would also be costs associated with evaluations of the effects of the proposals. One also must consider the forgone costs, such as losses that would be avoided with the use of better information. For instance, loan subsidies and defaults could decline, thereby creating savings. There would also be savings in terms of time.

While the exact cost is not known, what is clear is that the potential benefits are substantial. In comparison to the limited costs of collecting and providing the information, there would be benefits due to lowering college dropout rates and student loan defaults, while increasing the salaries of graduates. Tax revenues would also increase, while the incidence of government dependency would fall. With even very modest expectations of possible effects, these recommendations are likely to pay for themselves many times over. In addition, any improvement in college quality through the market mechanism is likely to also amount to a large sum.

## Discussion

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Questions and answers about improving information about higher education:

**Question:** “Hasn’t the private sector, with publications like the college rankings in *U.S. News & World Report*, stepped up to provide this type of information? Why does the federal government need to be involved?”

**Answer:** Students respond greatly to rankings systems, suggesting that there is great demand for information on colleges. However, most college publications and ranking guides focus on inputs, such as the average achievement levels of the student body or the selectivity of the institution. What is needed is more information on what the college actually does for its students and what value students get from the degree. This information is not included in the *U.S. News & World Report* rankings.

Moreover, research has documented the perverse incentives institutions have to “game the system” and maximize the indicators used in the rankings calculations. Therefore, colleges that improve their rankings may not have actually improved their educational quality. This makes a strong case for the federal government to be the first stop and gateway for accurate information for consumers.

The federal government is also the only body that can compel colleges to make their information available. As a central body, the federal government also has the ability to coordinate this effort and distribute the information in a highly visible, large-scale manner. Therefore, while the private sector should continue to package the information in innovative ways, the federal government is uniquely able to give consumers the important information they need.

**Question:** “How does your proposal differ from the Department of Education’s new rules that aim to provide consumers with better information about the effectiveness of college and training programs?”

**Answer:** The Department of Education’s current efforts are certainly a step in the right direction, but they are not sufficient. First, more information must be provided beyond the net price calculator currently being pushed by the Department. Students really need more information on college outcomes such as completion rates and employment prospects. Currently, little is available on the potential benefits (or lack thereof) associated with a particular institution.

Additionally, many government efforts to increase transparency are geared toward policymakers rather than consumers. They also assume that potential students will seek out the information. A more proactive dissemination strategy is needed to increase awareness among families who may not realize how important college choice is.

**Question:** “Won’t the comparison of graduation rates lead to lower educational standards or grade inflation, as colleges will just graduate more of their students to look better?”

**Answer:** Research documents the games colleges play to inflate their standings under existing ratings systems like *U.S. News & World Report’s*. Like individuals, educational institutions react to incentives and changes in costs and benefits.

Another challenge is that any information system would also have to deal with the difficulty of being applied to institutions with differing missions, student bodies, and goals. This further clouds our understanding of institutions, and so any effort needs to take into account institutional mission and resources.

These proposals would compare certain benchmarks, such as graduation rates, relative to institutions with similar resources and student bodies. This will alleviate some of the pressure for colleges to inflate their graduation rates. Moreover, there is a strong emphasis on economic indicators such as post-college employment outcomes. This type of information should encourage colleges to meet the demands of the marketplace and not lower the quality of their educations. If the institution can do anything to increase employment rates and salaries one and five years after completion, this will benefit consumers, as well as the college’s standing relative to peer institutions.

**Question:** “Most nontraditional students just attend the institution closest to them, and it is these students that have the lowest graduation rates. How will the proposal benefit this group?”

**Answer:** Above all, having clear, accurate information would help these students make better choices, avoid bad investments, and save time. Many potential students still have multiple options to contemplate. Further, competition and increased public scrutiny are likely to improve outcomes across all institutions by putting pressure on poor institutions to do a better job.

**Question:** “Would colleges and universities buy in to the proposals?”

**Answer:** Few colleges would want to do this voluntarily. This partly explains why such effort has not previously happened. There is a collective action problem, but the problem could be rectified by federally mandating the publication of this information.

The main opposition to these proposals is likely to come from lower-quality colleges and universities. These institutions would be vulnerable to more transparency about their costs and benefits. However, all institutions would be reluctant to participate because the burden to comply with the additional data collections would fall disproportionately on them. Collecting and reporting more detailed information would require colleges to devote more staff and resources to compliance. Institutions with especially strong success rates would likely feel that the additional effort would be justified by the positive attention they would receive. In the end, the proposal is likely to increase competition, and reward high performers.

**Question:** “Is this just about for-profit colleges?”

**Answer:** This proposal is not targeted at any subset of educational institutions. Rather, more and better information will benefit consumers of any kind of postsecondary training. While recent reports focus on poor outcomes for students who attend for-profit colleges, research suggests that low levels of degree completion also plague some colleges in the non-profit sector. To improve the ability of consumers to make better college decisions, we need better information on all colleges and universities.



**Question:** “Does everyone really need to go to college?”

**Answer:** While college may not be for everyone, rates of higher educational attainment are stagnating at the same time rates of return are increasing. Opacity in the market for education may be part of the problem. Many of the students who choose to go to college do not have the information they need to make the best decisions and avoid institutions with poor records of success. Additionally, some families overestimate the costs of higher education and assume they cannot attend, when the reality is quite different.

**Question:** “What benefits might result from these recommendations?”

**Answer:** Giving consumers better information could have multiple benefits. At the individual level, this could help potential students find better matches for their interests and family situations while also spurring them to choose institutions that have stronger records of success with students. Information about returns by field might alter not only college choice but also the selection of field or major, thereby nudging students into higher-paying, high-need professions.

Fostering better choices, and as a result, better educational investments, would translate into productivity gains for our country. Providing better information in a clear, organized manner could also produce significant time savings for families, as they currently have to comb through various incomplete sources for key indicators. As an extension, state and local governments would also likely favor the proposal, as their constituents would be better served and become more highly skilled. Moreover, such entities, along with foundations, would see a better use of the subsidies given to students. The information is also likely to be beneficial to the business community, as having skilled labor and clear signals of the value of credentials from different institutions would help in their operations.

At the institutional level, the recommendations could also increase pressure on colleges and universities to make improvements to their services, thereby raising college quality. Even if such an effect is quite small, it more than justifies the costs that would be incurred by improving the information consumers have about higher education.

## Conclusion

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Investing in a college education is a decision of great importance, but also great risk. The complexity of the college choice process and current trends of college graduation and loan default rates indicate that families are struggling with the decision and students are increasingly finding themselves living with the negative consequences of bad choices.

By improving the information available to consumers, assembling it in clear ways, and actively disseminating the information, there are many potential benefits. Giving consumers better information is shown to improve decision-making in other fields, such as health, and related efforts to increase educational information have also yielded positive effects. The time has come to do the same in higher education. Such efforts would cost little in comparison to the many potential benefits.

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# Endnotes

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- 1 According to calculations using U.S. Census data, Thomas Mortenson finds that only 51.3 percent of those who entered higher education completed a bachelor's degree and 15.5 percent completed an associate's degree by age 25 to 29. See "College Completion Results 1947 to 2007," Postsecondary Education OPPORTUNITY, March 2009, available at <http://www.postsecondary.org/topics/list.asp?page=1&od=&search=ACT%20reports#>.
- 2 See S.O. Ikenberry and T.W. Hartle, "Too little knowledge is a dangerous thing: What the public thinks about paying for college" (Washington: American Council on Education, 1998); Laura J. Horn, Xianglei Chen, and Chris Chapman, "Getting Ready to Pay for College: What Students and Their Parents Know About the Cost of College Tuition and What They Are Doing to Find Out" (Washington: National Center for Education Statistics Report No. 2003030, 2003); Thomas J. Kane and Christopher Avery, "Student Perceptions of College Opportunities: The Boston COACH Program," in Caroline Hoxby (ed.), *College Decisions: The New Economics of Choosing, Attending and Completing College* (Chicago: University of Chicago Press, 2004).
- 3 Peter F. Lake, "Will Your College Be Sued for Educational Malpractice?" *Chronicle of Higher Education*, Commentary, August 11, 2009.
- 4 C. Anthony Broh and Dana Ansel, *Planning for College: A Consumer Approach to the Higher Education Marketplace* (Boston: MassINC., 2010).
- 5 The Act also requires student lenders to disclose to borrowers the terms and conditions of the private loans they offer. The Health Care and Education Affordability Reconciliation Act of 2010 further regulated the student loan industry by making all federal loans part of direct lending, rather than relying on a subsidized market of private lenders.
- 6 The College Navigator (available at <http://nces.ed.gov/collegenavigator/>) allows students to search for colleges by location, award, and institution type, and it gives information on costs, financial aid, student body characteristics, and retention and graduation rates.
- 7 Kevin Carey, "A Matter of Degrees: Improving Graduation Rates in Four-Year Colleges and Universities" (Washington: The Education Trust, 2004); Frederick M. Hess, Mark Schneider, Kevin Carey, and Andrew P. Kelly, *Diplomas and Dropouts: Which Colleges Actually Graduate Their Students (and Which Don't)* (Washington: American Enterprise Institute, 2009).
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- 16 Median household income in 2009 was \$50,303 (U.S. Census Bureau, 2009).
- 17 "A Test of Leadership: Charting the Future of U.S. Higher Education," Commission on the Future of Higher Education (Washington, U.S. Department of Education, 2006), p. 10.
- 18 Broh and Ansel, *Planning for College*.
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- 23 John Bound, Michael Lovenheim, and Sarah Turner, "Increasing Time to Baccalaureate Degree in the United States," NBER Working Paper No. 15892, 2010.
- 24 Some question whether college expenditures are being devoted to student needs. As Wellman (2008) notes, the proportion of institutional spending on educational services has declined over time while expenditures on noninstructional activities, such as administrative services, have increased. Jane V. Wellman. "The Higher Education Funding Disconnect: Spending More, Getting Less." *Change Magazine*, November-December 2008.
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- 27 For more information, see Lance Lochner, and Enrico Moretti, "The Effect of Education on Crime: Evidence from Prison Inmates, Arrests, and Self-Reports," in *American Economic Review*, 94, 2004. Also see G. Vernez, R.A. Krop, and C.P. Rydell, *Closing the Education Gap* (Santa Monica, CA: RAND Corp., 1999).
- 28 Kane and Avery, "Student Perceptions of College Opportunities."
- 29 Providing these types of information can be an effective way to encourage college access. Bettinger and others (2009) implemented and tested the effects of an intervention that streamlined both the financial aid application process and students' access to accurate and personalized higher education information. Individuals who received assistance and information about financial aid and college pricing were much more likely to enroll in college and received larger aid awards on average, thus confirming the degree to which complexity and lack of information has hindered college access.
- 30 For instance, see the discussion of bounded rationality in Sendhil Mullainathan and Richard H. Thaler, "Behavioral Economics," *International Encyclopedia of Social Sciences* (Oxford: Pergamon Press, 1st edition, 2000), pp. 1094-1100.
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- 32 Given the very selective and affluent nature of Avery and Hoxby's sample, this is likely an upper bound on the sophistication of students and their families in weighing college options. Avery, Chris, and Caroline Hoxby, "Do and should financial aid packages affect students' college choices?" in Hoxby, C. (ed.), *College Choices: The Economics of Which College, When College, and How to Pay For It*. (Chicago: University of Chicago Press, 2004).
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- 34 U.S. Department of Education press release: "Student Loan Default Rates Increase," September 13, 2010.
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- 42 Ibid.
- 43 For instance, see Eric Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu, "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment." National Bureau of Economic Research (NBER) Working Paper No. 15361, 2009.
- 44 The requirement is authorized by Title IV of the Higher Education Act of 1965, as amended (20 USC 1094, Section 487(a)(17) and 34 CFR 668.14(b)(19)).
- 45 John F. Kennedy, Special Message to the Congress on Protecting the Consumer Interest (March 15, 1962).
- 46 General Accountability Office, "Higher Education: Institutions' Reported Data Collection Burden Is Higher Than Estimated but Can Be Reduced through Increased Coordination" (Washington: GAO-10-871, August 13, 2010).
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## Bridget Terry Long

### Harvard Graduate School of Education

Dr. Bridget Terry Long is Professor of Education and Economics at the Harvard Graduate School of Education. As an economist specializing in the study of education, Dr. Long examines the transition from high school to higher education and beyond. Her work focuses on college access and choice, factors that influence student outcomes, and the behavior of postsecondary institutions. Dr. Long received her Ph.D. and M.A. from Harvard University's Department of Economics and her A.B. from Princeton University. She is a Faculty Research Associate of the National Bureau of Economic Research (NBER) and served as a Visiting Scholar at the New England Public Policy Center of the Federal Reserve Bank of Boston. She received the National Academy of Education/Spencer Postdoctoral Fellowship and has been awarded numerous private foundation and federal research grants. In July 2005, the *Chronicle of Higher Education* featured her as one of the "New Voices" in higher education, and in 2008, National Association of Student Financial Aid Administrators (NASFAA) awarded her the Robert P. Huff Golden Quill Award for excellence in research and published works on student financial assistance. Dr. Long also serves as a member of the National Board of Education Sciences, the advisory panel of the Institute of Education Sciences in the U.S. Department of Education.

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# Grading Higher Education

## *Giving Consumers the Information They Need*

### Summary of findings

Potential students and their families must navigate a labyrinth of incomplete and uncertain information when deciding where to go to college, what to study, or what career to pursue. Many are lured to institutions based less on potential benefits and more on an energetic tour guide, television advertising or ranking in the popular press. The result is an array of poor choices being made every day, as exemplified in low completion rates, more students taking longer to complete degrees and large student debt relative to income.

Higher education institutions are mandated to report costs to the Department of Education under the Higher Education Act, and new regulations mandate graduation rates and job placement disclosures for some schools. At the same time, there are already tools geared toward serving potential students, such as College Navigator, that give families details on institutional characteristics, costs, and other basic information. However, these resources need to be expanded to include more on student outcomes as well as consolidated and better-packaged to meet the needs of potential students.

The proposal calls for the federal government to expand the types of information that are available and allow users to compare indicators like cost, financial aid, student debt, employment outcomes, and average salaries following graduation, across peer institutions. An important part of the proposal is dissemination. To make sure the information is available to all who could benefit, additional effort must be taken to translate and circulate this information to an audience that may understand little about higher education offerings, pricing, aid, or quality. The federal government should actively reach out to potential students where they live, study and work. This should be done not only through an online interface but also partnerships with educational, social services, and employment organizations along with other government agencies.

The costs of this proposal are small in comparison to the many potential benefits to individuals, employers and society at large. Improving the information available to consumers, assembling it in clear ways, and actively disseminating the information will lead consumers to make more informed education decisions that will likely improve post-college outcomes.

### Fast facts

- Consumers are confounded by the choices surrounding the decision to invest in higher education. Many assume they cannot go to college. Others seem to make the wrong choices: less than 60 percent of students graduate with a four-year degree within six years, and at some colleges the graduation rate is less than 10 percent.
- At the same time, the costs of poor decisions have never been higher: Tuition grew 5 percent on average annually over the last decade, and projections suggest that the price of a public, four-year college could cost 3 times more in just 15 years; the average annual cost of a four-year private institution could reach \$61,000.
- This proposal builds on evidence from K-12 education, health care, and health insurance that better information can improve outcomes for consumers.
- The proposal calls for the federal government to take the lead in implementing, coordinating, and assembling the needed information about higher education institutions, so that consumers can easily compare cost and benefit indicators across peer institutions.
- Specifically, consumers need information on average costs and student debt. In addition, information on outcomes should be provided, such as employment outcomes six months after graduation, and income one and five years after graduation.
- The federal government should provide an online interface that can be customized to reflect student profiles. To reach the individuals that need this information most, the government must also actively disseminate this information to potential students where they live, study, and work.