Preventing Consumer Abuses in Postsecondary Education

Robert Shireman,
AEFP Conference,
March 20, 2020
The Problem(s)

- “Information asymmetry”
- Schools not acting in students’ best interests
  - Selling instead of advising.
  - Selective information, manipulative.
  - Targeting consumers most susceptible to the sales strategies.
- Federal government as a third-party payer
  - Vouchers to students (grants and loans) function as an entitlement to the schools
Luis (FailStateMovie.com):

- “I’m nervous, it’s a college interview.”
- The school rep “looked like the real deal. . .”
- “He takes out a list of all of the places I could get a job. He starts talking about the criminal justice program, how fast it was…”
- “You don’t have to worry about the price. . . What you’re getting is worth gold.”
- “You get into the classroom, it’s all people like you.”
Attempted Solutions

1. Control: Nonprofit (including public)
2. Accreditation
3. Market Validation (85/15, 90/10)
4. Default Rate Cutoffs
5. Debt/Earnings (Gainful Employment)
1. Control: Nonprofit (including public)

“By reducing incentives for the opportunistic behavior, nonprofits become the preferred suppliers in certain settings: they increase the probability – and the confidence of donors or buyers – that they’re getting what they are paying for, tending to offset the contract failure inherent in such asymmetric markets.”

– Gordon C. Winston

99 Percent of Student Fraud Claims Concern For-Profit Colleges

98.6%

Source: FOIA request obtained by authors as of August 15, 2017.
The nonprofit’s “restriction on the right of managers and directors to share in their organization’s profits blunts their incentive to seek profits, which decreases their incentives to take advantage of underinformed consumers.”

– Burton A. Weisbrod

AVERAGE TUITION AND PROPORTION OF TUITION AND STATE SUPPORT SPENT ON INSTRUCTION AT THE LARGEST 100 PUBLIC, NONPROFIT, AND FOR-PROFIT SCHOOLS

Proportion of Tuition + State Support Spent on Instruction

- Gray: For-profit
- Red: Nonprofit
- Pink: Public

Source: Author compilation of results from John Cheslock's IPEDS Finance Survey analysis.
2. Accreditation

- **Intent:** Let experts make the judgment call about schools that are sleazy.
- **In implementation:**
  - Schools created their own accrediting agencies.
  - Discerning agencies were infiltrated, lost their nerve, and/or were undermined through lawsuits or fear of lawsuits.
3. Market Validation (85/15, 90/10)

- Intent: Some of the students must be paying with their own funds or financed by employers, private scholarship providers, etc.
- In operation, predatory colleges either:
  - fill the private-pay quota with other government programs (e.g. GI Bill); or,
  - top-up the price.
4. Default Rate Cutoffs

- Theory: To avoid high default rates, schools will be more responsible in how they operate.
- In operation, the cutoff initially eliminated many schools, but since then predatory colleges hire firms to manage their rate directly, by contacting borrowers.
5. Debt/Earnings (*Gainful Employment*)

- **Intent:** Programs with consistently low earnings in relation to debt lose access to federal funds.
- **Not fully implemented.**
  - Many colleges ended prior programs, created new ones.