



PHOTO-ILLUSTRATION / JEFF MANGIAT

# Should Congress Link Higher-Ed Funding To Graduation Rates?

## DEBATING THE USE OF DEGREE COMPLETION AS AN ACCOUNTABILITY METRIC

After decades of slow growth, the share of young Americans completing college has increased to 48 percent in 2019, from 39 percent 10 years earlier. What accounts for the rise? Are more students clearing a meaningful bar for graduation, or are colleges and universities engaging in credential inflation and lowering their academic standards? This question could be central as Congress prepares to reauthorize the Higher Education Act—given the current interest in using degree completion as an accountability metric linked to the disbursement of federal funds. Are there problems in setting forth higher graduation rates as a federal goal? And more specifically, should policymakers embrace or reject the idea of linking funding to such outcomes in a new Higher Education Act? In this forum, Lanae Erickson of the think tank Third Way lays out the case for using federal leverage and other means to get institutions to boost their completion rates. Robert Kelchen of Seton Hall University sees both promise and pitfalls in tying federal funding to such outcomes, even as he doubts that a new Higher Education Act is on the near horizon.

### PERFORMANCE-BASED FUNDING PRODUCES MIXED RESULTS

by ROBERT KELCHEN



**THE FEDERAL GOVERNMENT** currently provides more than \$150 billion each year to students and their families in the form of grants, loans, work-study funds, and tax credits to help make college more affordable. This sizable public investment in higher education has indeed made college attendance possible for a larger share of Americans. However, there is growing concern in Congress on both sides of the aisle over whether these funds are being used effectively to help students receive a high-quality education at an affordable price tag.

The vast majority of federal *(continued on page 70)*

### CONGRESS MUST ADDRESS DISMAL DROPOUT RATES

by LANA E ERICKSON



**IT'S A FAMILIAR STORY:** a young, courageous (usually white male) entrepreneur drops out of college to pursue his dreams, only to become rich and successful beyond all expectation. Its implication, which has found some purchase in the popular imagination, is that it doesn't matter if a person doesn't finish college—in fact, he may be better-off following his heart song. Call it the Steve Jobs myth.

A close look at federal higher-education policy suggests that Congress too seems to subscribe to this myth—investing hundreds of billions in taxpayer dollars to make sure all Americans can *enter* college *(continued on page 71)*



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financial aid is distributed through a voucher system, with money following students to the eligible college of their choice. Both students and colleges must meet basic performance standards in order to receive funding. Students must make satisfactory academic progress, which colleges generally define as a 2.0 grade point average and completion of roughly two thirds of all credits attempted. Colleges must meet minimal quality thresholds, which include accreditation by a federally recognized agency and a student-loan default rate below 30 percent. While a large percentage of students (especially at community colleges) struggle to maintain academic eligibility for federal funding, very few colleges are eliminated by the institutional requirements.

Washington policymakers who are frustrated by these minimal accountability standards for colleges can turn to the laboratories of democracy—the states—for other ideas. One policy that has been adopted in nearly 40 states is performance-based funding, which ties at least a portion of state appropriations for public colleges to student outcomes such as degree or certificate

able to re-prioritize some resources with the aim of earning additional public funds. The second condition—the ability to influence the desired outcome—is trickier to meet, as students may have 40 different professors and interact with dozens of staff members over the course of a bachelor's degree program, and it is difficult to identify those who were instrumental in getting the student to graduation. In regard to the final condition—the amount of funding in play—most states that have performance-based funding policies allocate only a relatively small portion of their higher-ed money (less than 10 percent of it) on the basis of outcomes. Throw in institutional provisions designed to mitigate year-to-year revenue fluctuations, plus the reality that state funding is only a small part of many colleges' budgets, and many institutions ultimately have only 1 or 2 percent of their budget at stake in a given year.

Research examining the effectiveness of performance-based funding policies has generally found modest effects—both positive and negative—of linking state funding to the number of college completions. This trend of mixed effects holds across states, for both two-year and four-year colleges, and for varying

Research has shown that performance-based funding systems have resulted in heightened admissions standards and reduced diversity at selective institutions, and more than 15 states now provide bonus funds for colleges when they graduate students from traditionally underserved populations.

completion. Should Congress also use degree completion as an accountability metric, including such a provision when reauthorizing the Higher Education Act? While the idea has promise, it also presents potential pitfalls.

**An Effective Policy?**

For an accountability system in higher education to be effective, three conditions must be met. First, tying funding to student outcomes must result in changing institutional behaviors toward practices and approaches that support positive outcomes. Second, colleges must be able to influence the outcome of interest, which would require reaching students by working with a large number of faculty and staff members who may not be directly affected or incentivized by the policy. Finally, the amount of money linked to student outcomes must be substantial enough to get colleges' attention and change their actions.

When it comes to the possibility of tying federal or state funding to student completions, these conditions are met to varying extents. A number of qualitative studies have found that colleges subject to performance-based funding have boosted their data analytics and academic advising services in an effort to improve student success, which suggests that colleges are

shares of state funding tied to student outcomes. Some emerging evidence suggests that long-established state policies may be more effective than newly implemented ones, but more research is needed to fully understand how specific nuances of these policies are associated with student outcomes.

**Unintended Consequences**

One concern with any accountability system derives from Campbell's Law, which states that, over time, any quantitative measure used for making decisions is likely to "distort and corrupt the social processes it is intended to monitor" and become less valuable. This means that if colleges discover ways to game performance metrics, at least some of any observed upturn in performance under an accountability system is likely not real improvement.

One potential effect of using degree completions as a federal accountability measure is that colleges may lower their standards to allow more students to graduate. A new working paper by Jeff Denning and his Brigham Young University colleagues suggests that a portion of the increase in college completion rates since 1990 may be attributable to lowered standards (but not to students switching to easier majors). Without seeing additional research, I am agnostic (*continued on page 72*)

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and then acting as if it is irrelevant whether or not they *finish* it.

That is a huge problem, because completing a college degree, or failing to, is a major factor in determining

whether a person will have an economically stable future. While it might have been possible a few decades ago to graduate from high school, enter the job market, and find a career that enabled one to earn a solid middle-class life, that path to success has been almost completely foreclosed by the changing nature of our 21st-century economy. Yet right now, a student who enrolls in higher education has about a fifty-fifty chance of graduating. Our society can no longer afford to overlook that fact—or act as if it is inevitable. Completion matters to students; it matters to taxpayers; and there is a lot that institutions and the government can do to address the nation's dismal higher-education dropout rates. With stakes this high, we must stop being cowed by the naysayers on both the right and the left. It's time to act.

**Completion Matters to Students**

The Center on Education and the Workforce at Georgetown University estimates that two thirds of the jobs in the American economy will require postsecondary education or training by next year. While wages have stagnated for those without a degree or credential, college-degree holders have weathered the economic changes of the last two decades and seen their pay increase. Those with a four-year degree make an average of about \$1,200 a week, while those who never finished college take home about two thirds that amount, reports the U.S. Bureau of Labor Statistics. People with some college but no degree are twice as likely to live in poverty as their peers with bachelor's degrees, and three times

the current dropout rates are also causing widespread harm. At Third Way, the center-left think tank where I work in Washington, D.C., we attempted to quantify this loss to taxpayers and society by means of a thought experiment. What would happen if college completion rates rose to the current high-school-graduation level—84 percent? Boosting completion for a single class of students would result in 1.3 million more college graduates, which would translate to:

- 107,400 more employees in the workforce
- 48,000 fewer people in poverty
- 28,000 fewer people living in households participating in Medicaid
- an increase in Social Security contributions of nearly \$50 billion
- a lifetime increase of more than \$90 billion in local, state, and federal tax revenue.

That's enough to build more than 5,000 new elementary schools or nearly 23,000 miles of highway, all from just one year of better graduation rates.

**Institutional Responsibility**

If college completion is important, both for improving the lives of students and getting a return on taxpayers' investment, why haven't we prioritized improving these rates? The reason is that, in contrast to the way people view K–12 education, they tend to blame the individual student for dropping out of college. Picturing someone who enrolled in higher education but didn't finish conjures up visions of a teenage party animal who didn't take his or her studies seriously. Third Way recently conducted 10 focus groups with parents and students to find out who they think is at fault when a student doesn't complete a degree. Participants

There are federally funded institutions of higher education that currently graduate less than 10 percent of the students who enter their doors. And taxpayers gave \$106 million last year to those schools alone.

more likely to default on their student loans. By contrast, college graduates are 10 percentage points more likely to be participating in the labor force, and families headed by someone with a college degree are able to save 14 percent more than the families of those who never got to graduation. All in all, Georgetown researchers have projected that completing a college degree enables someone to earn about a million dollars more over a lifetime than someone with a high-school diploma. And it's not just money: college graduates are also healthier and more civically engaged. Simply put: a college degree pays off.

**Completion Matters to Taxpayers**

With taxpayers funding \$120 billion a year in loans and grants to provide every American a chance to enroll in higher education,

uniformly pointed to the student. Yet we know that there are federally funded institutions of higher education that currently graduate less than 10 percent of the students who enter their doors (see Figure 2). And taxpayers gave \$106 million last year to those schools alone. If an institution is failing to graduate 90 percent of its students, can the students be solely to blame? Surely that large a proportion of the school's student body is not made up of lazy party animals who refused to study.

It's true that some schools admit students who are contending with more challenges than others. Institutions that offer open access or serve higher proportions of historically underserved populations often struggle more to get their students to complete a degree program. However, study after study has shown that even institutions that serve similar student (*continued on page 73*)

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on the question of whether academic standards have fallen over time (I went to college in the mid-2000s and earned my share of Bs and Cs), but it is worth noting that the issue of graduation rates first became visible to the public in the late 1990s and early 2000s without being tied to funding for most colleges. Therefore, it is unclear whether linking a portion of funding

programs to shorter-term certificate programs in an effort to increase completion rates. Even if the quality of the education provided does not change, it is easier to complete a one-year certificate program than a two-year associate degree, simply because the latter takes longer and requires more persistence. Several studies examining performance-based funding systems have found that colleges did respond with this tactic, and that is a concern, because longer-term degree

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to college completions will result in any additional lowering of standards beyond what has already happened.

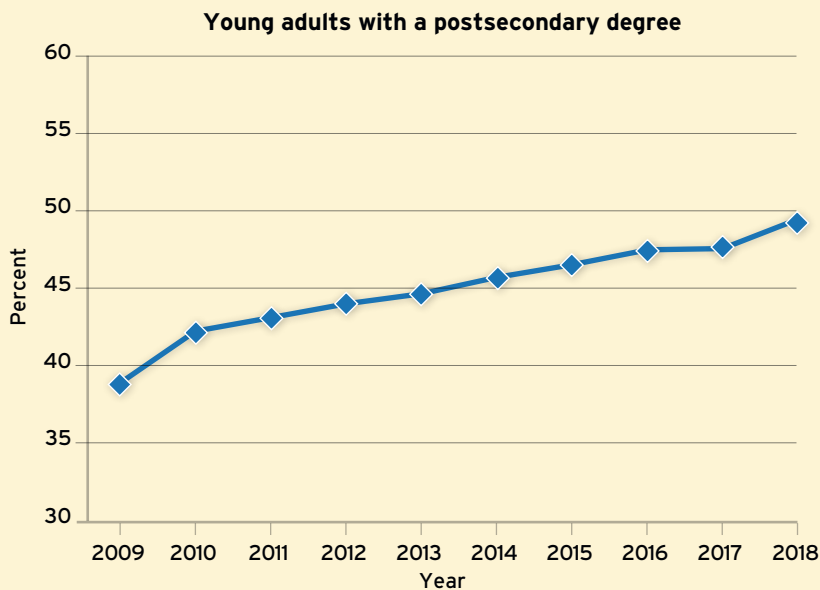
In the community-college sector, another concern is that institutions may shift students from associate-degree

programs tend to have a higher labor-market payoff than shorter-term programs. (On how certificates and degrees can work together, see "A Certificate, then a Degree," *what next*.)

Colleges may also seek to recruit and enroll students whose success is virtually guaranteed, which threatens to exacerbate enrollment gaps by race/ethnicity and family income at selective colleges. (Most colleges admit more than 50 percent of applicants and are not considered selective.) Research has shown that performance-based funding systems have resulted in heightened admissions standards and reduced diversity at selective institutions, which has led more than 15 states to provide bonus funds for colleges when they graduate students from traditionally underserved populations.

**Degree Attainment on the Rise** (Figure 1)

*The share of 25- to 34-year-olds in the United States with a post-secondary degree has grown over the past decade, to 49 percent in 2018 from 39 percent in 2009, but remains well short of the 60 percent goal set by the Obama administration 10 years ago.*



NOTE: Figure shows the percentage of 25- to 34-year-olds with a degree at the associate level and beyond.

SOURCE: National Center for Education Statistics, U.S. Department of Education; Organization for Economic Co-operation and Development (OECD)

**Political Prognostications**

The proportion of U.S. 25- to 34-year-olds holding a college degree has grown 25 percent over the past decade, to nearly 48 percent in 2019 (see Figure 1). That's far short of the 60 percent goal set by the Obama administration in 2009, and much of the increase can be attributed to a rise in enrollment rates. Given the lackluster improvement in college completions, along with rising student-debt burdens, policymakers across the ideological spectrum are hesitant to give more money to colleges without tying at least a portion of it to student outcomes. While performance-based funding is often viewed as a policy favored by conservative legislators, deep-blue California adopted such a system in 2018, (*continued on page 74*)

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populations are getting wildly different outcomes, and some open-access schools are deriving great results while others are falling way short. That means the students aren't the

problem, and there's no excuse for consistently failing to deliver. It is possible to do better.

The good news is that there are a variety of evidence-based interventions that are proven to raise graduation rates. One of them is the City University of New York's Accelerated Study in

boost its graduation rate to 54 percent from 32 percent over the last decade—and completely erase racial achievement gaps.

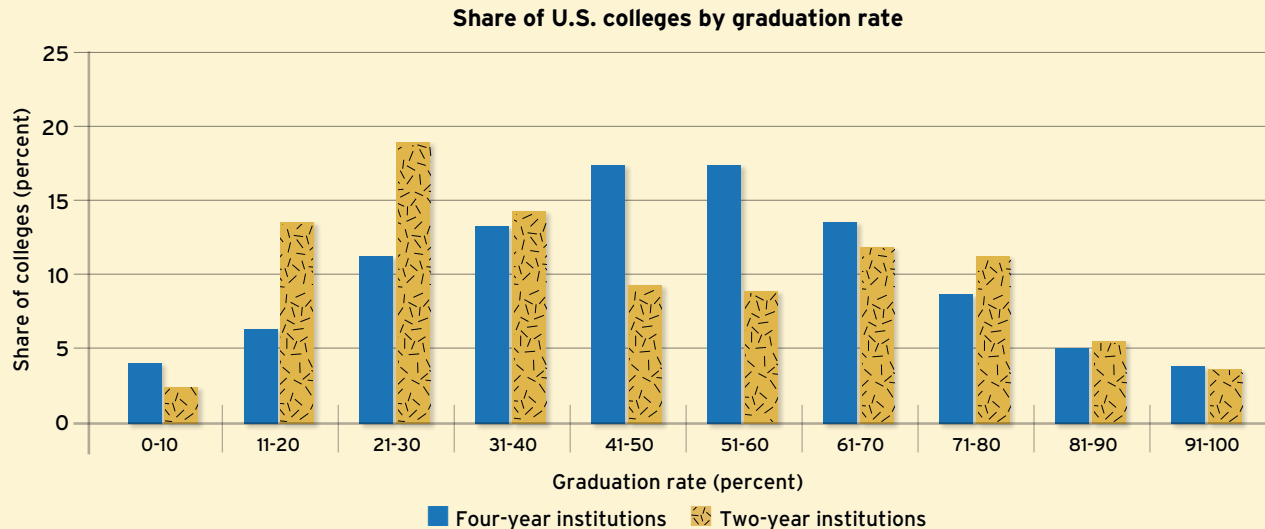
These schools didn't improve their outcomes by changing the kinds of students they admit. They did it by placing priority on supporting the students they already enroll. And it worked.

**Federal Policy Choices**

Why don't more institutions use these proven methods to increase their completion rates? The existing system gives them little to no incentive to do so. Despite the fact that institutional

**Many Colleges across the U.S. Have Low Graduation Rates (Figure 2)**

*Graduation rates vary widely across institutions, from less than 10 percent to 100 percent completion. However, at more than half of two- and four-year institutions, fewer than half of students graduate within 150 percent of the expected time to complete a degree.*



**NOTE:** Graduation rates reflect first-time, full-time degree or certificate-seeking students who completed their degree within six years for four-year institutions and three years for two-year institutions. Data are based on institutions in the United States that participate in federal financial aid programs.

**SOURCE:** 2017 data from the Integrated Postsecondary Education Data System (IPEDS), National Center for Education Statistics, U.S. Department of Education

Associate Programs, which provides low-income students with comprehensive support and an assigned counselor who sticks with a student throughout, all with the aim of helping students acquire an associate degree within three years. Another proven intervention involves giving small emergency-completion grants (averaging \$900) to juniors and seniors in four-year programs who encounter an unexpected expense that could derail them. Through such mediations, some institutions have succeeded in graduating significantly higher proportions of their students. The CUNY program has doubled completion rates and provided taxpayers a \$3 to \$4 return on every dollar invested. The emergency-loan mechanism has helped Georgia State University

choices drive graduation rates, federal policy has focused almost entirely on access—allowing schools to cash checks when students walk through the door and never asking how many of those federally funded students complete their degrees. College completion matters to students and taxpayers, and it should matter in federal policy as well.

What can policymakers do? First, they can ensure that the accrediting agencies that function as the gatekeepers for federal funding are looking at student outcomes. If a school isn't providing a real return on investment to students, and if most of its students are leaving without a degree, that school should not continue to be accredited. Second, in *(continued on page 75)*

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and New Jersey is in the process of developing one. Therefore, it seems likely that Congress will pair any increase in federal spending on student financial aid with some type of outcomes-based accountability system.

Still, I seriously doubt that Congress and the Department of Education would be willing to allow colleges with subpar completion rates to lose funding. State performance-based funding systems often protect colleges from such losses by using hold-harmless provisions or basing only new funds on student outcomes. The federal government also has a long history of waiving sanctions for low-performing institutions, especially those that are politically popular, such as community colleges and minority-serving institutions. The Department of Education under President Obama recalculated student-loan default rates at the eleventh hour of his administration, protecting federal aid eligibility for a number of colleges; and in 2017, Republican senator Mitch McConnell introduced a rider to protect a community college in his home state from default-rate sanctions.

The Obama administration's failed effort to link federal funding to student outcomes shows the political difficulties of implementing a federal accountability system, even

though most states already have such systems in place. In 2013 the administration proposed the Postsecondary Institution Ratings System, which would have tied federal funding to access, affordability, and completion outcomes. This plan was quietly abandoned in 2015, but it did result in an expanded College Scorecard that provides potential students with information on an institution's student-loan debt, repayment rates, and earnings. The resulting focus on student-loan repayment has resulted in multiple proposals from both Democrats and Republicans to hold colleges accountable for a portion of loans that are not repaid, but none of these plans has received serious discussion in Congress.

Finally, I believe that divisions between Democrats and Republicans on this issue—which have only grown wider during the 2020 presidential campaign—will be a main stumbling block to reauthorization of a comprehensive Higher Education Act, which is not likely to happen until at least 2021. Issues such as income-driven student-loan repayment plans, campus free speech, and sexual-assault investigations have gotten more public attention, but differences over whether accountability policies should focus on for-profit colleges or cover all sectors equally are likely to doom reauthorization. This means that for the next few years, discussions about tying federal funding to student outcomes are likely to be no more than academic exercises. ■



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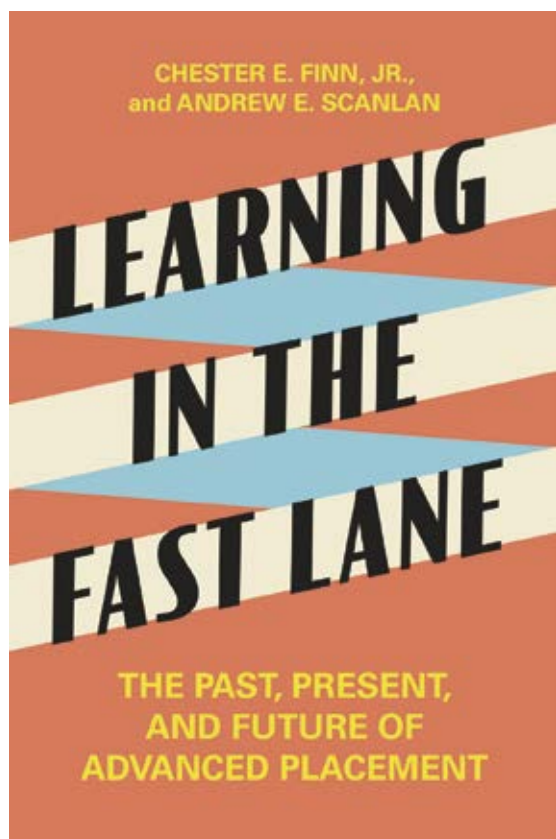
the reauthorization of the Higher Education Act, Congress can mandate that if a school fails to graduate a specified percentage of its students within eight years, it will lose eligibility for federal grant and loan dollars. And third, the government can invest in the schools that actually do want to improve their outcomes, by funding the expansion of evidence-based programs to increase completion rates—particularly for low-income students and students of color. Together, these three simple steps would send a powerful message to the higher-education system: make sure that more students get the degree they need to set them up for success in the future.

Some have raised concerns that emphasizing completion through federal policy will cause colleges to become diploma mills that hand out degrees even to those who don't earn them. But the policy ideas outlined here are a light touch and do not get anywhere close to over-correcting. If paired with other outcomes-focused reforms that look at indexes like post-enrollment earnings and loan repayment, they can help create a multiple-criteria system that ensures students and taxpayers are getting the value they deserve from colleges and universities.

Design matters, and certainly any federal policy around completion should be approached thoughtfully and paired

with bulwarks against unintended consequences. Senator Chris Murphy (D-CT), for example, has suggested that we put in place a federal bottom line on completion together with a “maintenance of effort” provision requiring schools to remain consistent in the number of low-income students they enroll—to ensure we support real improvement, not higher completion rates that arise from tighter admission standards. Others have suggested using disaggregated data to measure not just completion on average but for specific kinds of students. Still others advocate for graduated sanctions, to avoid the problem of politicians swooping in to “save” every failing school with exemptions and excuses. Clearly, there are policy pitfalls here, as initial performance-funding models in some states have shown, but there are myriad ways to counter the possible downsides and still take action that will make a real difference for students.

The truth is that apathy toward completion at the federal level has created this problem, by incentivizing access only and ignoring the outcomes of students once they enroll. Recalibrating will ensure that we aren't pushing more and more students to start college, take out loans, and then leave without the degree in hand that will enable them to get a good job and repay those loans. *That* is the worst-case scenario, and we can no longer afford to let our higher-education system leave students worse-off than when they started. ■



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