



TAKING CHARGE

A STATE-LEVEL AGENDA FOR
HIGHER EDUCATION REFORM

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Taking Charge: A State-Level Agenda for Higher Education Reform

By Andrew P. Kelly and Daniel K. Lautzenheiser

The Great Recession has put state leaders in a bind. Governors and statehouses must simultaneously generate the economic growth that will replenish state coffers and avoid adding to significant budget deficits. Though tax revenues have rebounded some since 2010, for fiscal year 2013, 31 states still reported budget deficits, totaling \$55 billion.¹ In the midst of this new normal, state leaders must leverage existing investments to improve their states' economic outlooks.

States have often looked to their systems of higher education to help drive economic growth. America's research universities are among the best in the world, producing the innovations and skilled graduates that fuel state and regional economies. As urban studies theorist Richard Florida has argued, colleges and universities tend to attract and employ members of the "creative class," helping to catalyze dynamic regional economies like those in California's Silicon Valley, the Seattle metro area, and Route 128 in Boston.² Postsecondary institutions also provide the occupational training that allows state economies to retool in light of new demands, particularly in places that are continuing to shift away from manufacturing.³

Beyond these transitioning economies, demand for postsecondary credentials—and not just four-year degrees, but certificates and associate's degrees—will only grow in the years to come. The Georgetown Center on Education and the Workforce estimates that, by 2018, almost two-thirds of all jobs will require some level of postsecondary education. Much of this growth will be in so-called "middle-skill" jobs, those that typically require short-term occupational training from a two-year college rather than a four-year degree.⁴

Although two- and four-year colleges are important linchpins in state economies, there is a growing sense that the existing system is not as productive as

it needs to be, particularly in this era of tight budgets. Across two- and four-year institutions, just half of students who start a degree finish it within six years.⁵ Completion rates are particularly low at community colleges and for minority and low-income students. Here's the rub: at this rate of production, the United States will have a hard time meeting labor market demand, falling about three million graduates short of where we need to be in 2018.⁶

Moreover, there has been a dramatic shift in the demographics of higher education today. The traditional college model—physical campuses that bundle students and professors into a single location—was built to accommodate the "traditional" student. But what we think of as traditional students—18–22-year-old first-time college students who head to four-year colleges, live on campus, and attend full time—now make up less than a quarter of all postsecondary enrollments.

Instead, higher education is increasingly serving so-called "nontraditional" students—learners over the age of 25 who are attending part time and juggling multiple commitments such as work and family. One-third of college students are over the age of 25. Nearly 40 percent of undergraduates attend part time, and one-third of part-time students report working more than 35 hours per week. These shifting demographics, combined with the technological advances that allow for distance learning, suggest a need to revisit many of the assumptions underlying the traditional place-based model.

There are also emerging doubts about the value of a college education. Although the cost of college has increased at three times the rate of inflation, little evidence exists that higher prices reflect higher quality. In their landmark study of student learning on college campuses, sociologists Richard Arum and Josipa

Roksa found that 36 percent of students did not show any significant improvement in critical thinking, complex reasoning, and written communication skills after four years of college coursework.⁷ It is no surprise, perhaps, that in 2012 the Associated Press found that 53 percent of recent college graduates were either unemployed or “underemployed”—the euphemism for overqualified waitresses, bartenders, and baristas.⁸

Between 2000 and 2011, wages for recent college graduates actually declined; they still outperform those with only a high school diploma, but the payoff for this credential has not kept pace with the investment required to get it. From the taxpayer’s perspective, students who fail to graduate or who finish without the skills necessary for success in the labor market do not provide the full return on state investments.

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We cannot simply spend our way out of these problems. Though state appropriations for higher education increased in most states during 2012 and 2013, these increases come after years of steep declines.⁹ It seems unlikely that states’ spending will return to pre-recession levels.¹⁰ Moreover, higher education will continue to compete for state funding with priorities such as health care and K–12 education. State leaders must seek out reforms that leverage existing investments more effectively and that put their higher education systems on a stable, sustainable path.

New Challenges Require New Approaches

The years of investing heavily in education and hoping for the best are over. In light of these lackluster results, policymakers and families have raised questions about the value of a college degree and the utility

of continued public investments in higher education. State policymakers must confront a daunting set of interlocking challenges—the need to produce more graduates and ensure that those graduates receive high-quality education in a field with real job opportunities, all without breaking the bank.

The good news is that states control the primary levers for reform, and there are many opportunities for meaningful change. State and local governments continue to shoulder the bulk of the financial investment in public higher education; nearly three-quarters of college students attend public colleges and universities. Because they hold the purse strings, states exert considerable control over the incentives facing their public institutions. State policymakers also have control over the licensure of new providers of higher education, placing them in a powerful position to shape the marketplace. And because states are the nation’s “laboratories of democracy,” they are well suited to experiment with new approaches to higher education policy that the rest of the country can learn from.

In the near future, state leaders should seize the opportunity to push for bold higher education reforms that will prime their states’ human capital engines. In particular, forward-thinking policymakers would do well to target their reform energies in four areas:

- Create **incentives** for institutions to enhance student success, become more productive, and try new approaches.
- Measure and reward **cost-effectiveness**.
- Improve **transparency** by reporting new data on student outcomes, productivity, and costs in ways the public and prospective students can understand.
- Encourage **innovation** by lowering barriers to entry and freeing existing institutions to experiment.

Getting the Incentives Right

State policies around funding and accountability create the incentives under which higher education

institutions operate. By setting concrete higher education goals, reforming funding policies, and redesigning credit transfer policies, leaders can shape institutional behavior to further state interests.

Historically, state policies have not encouraged institutions to focus on undergraduate student success and the efficient use of resources. In most states, public funding flows to colleges on the basis of enrollment rather than courses or degrees completed. Enrollment-driven funding policies encourage institutions to bring students in the front door but provide less incentive to make sure they progress all the way through—or actually learn anything in the process. When funding is based on enrollments, colleges that fill their seats receive state money regardless of whether they serve their students well.

The incentives are also wrong on credit transfer. Colleges typically reserve the right to award transfer credit based on the professional judgment of the faculty. But an institution has little incentive to grant credit for courses taken elsewhere, and students often lose credits when they move between institutions. Byzantine and capricious rules governing credit transfer are effectively a tax on students who move from one institution to the other: lost credits extend students' time to degree and cost them extra tuition dollars. From a taxpayer perspective, excess credits represent instructional expenses that did not lead to a degree.

Given our limited (but growing) knowledge of what works to improve student success, policymakers should avoid prescribing particular campus-level interventions. Rather, they should focus on creating the conditions under which institutions have stronger incentives to focus on student success and remove obstacles that stand in the way. We see three promising approaches on this front.

Establish Clear Statewide Goals for Degree Attainment. A clearly stated public commitment to boosting attainment can be a powerful tool to hold both policymakers and institutions accountable for results. The point is not to blindly call for more degrees but to craft goals that reflect the state's emerging labor market needs. Some states will find they require more occupational certificates, while others will need additional associate's degrees in a given field. Most states

have established goals for their higher education system via strategic plans or similar documents, but these often lack specificity and concrete targets.¹¹

In states that are doing this well, meanwhile, state officials and institutional leaders have collaborated to set targets, and institutions are periodically evaluated on the basis of those metrics. In Louisiana, the 2010 GRAD Act led the state to enter into six-year performance agreements with all public institutions. The performance contracts set institution-specific targets for student outcomes, and funding decisions are based in part on these outcomes. In Colorado in 2005, the state's Commission on Higher Education negotiated performance contracts with the state's public institutions, under which colleges reported on their progress each year through 2011.¹² Early results indicate positive outcomes: the number of degrees and certificates awarded has increased at each level between 2006 and 2011. The state is reviewing the policy with an eye toward renewal.¹³

Base a Significant Portion of State Funding on Student Outcomes. One surefire way to focus the attention of institutions is to tie their funding to student outcomes. Outcomes-based funding is not a new idea in higher education, but early efforts were typically timid: states would either link a very small percentage (too small to inspire meaningful change) of an institution's budget to student outcomes or create a pot of money that institutions could win as a bonus on top of their base funding.¹⁴

Policymakers can learn from states that have tied a meaningful piece of an institution's base funding to desired performance outcomes, such as course completion, growth in the number of graduates, or on-time completion. To ensure that institutions do not respond by simply becoming more selective, state systems should also build in rewards for the number of traditionally underrepresented students who finish a credential or transfer to another institution. Although the percentage at stake and the outcomes in question should be tailored to particular states and institutions, tying funding to performance can focus institutions on promoting outcomes of interest.

In a recent study we conducted in collaboration with the Institute for a Competitive Workforce at the

US Chamber of Commerce, we found that 19 states were experimenting with some form of outcomes-based funding. We rated seven states at the top of our grading scale because their performance funding system ties an institution's base funding to select outcomes and attaches more weight to the success of disadvantaged students, helping to encourage continued enrollment of traditionally underrepresented students.¹⁵

The gold standard for credit transfer is developing a common course numbering system that will facilitate credit portability.

Tennessee has the country's boldest performance-based funding system—a 2010 law set up a system whereby 80–100 percent of the higher education budget is based on remedial course completion, retention rates, and degree completion. Tennessee's system pays a premium for completions by adult students and those receiving Pell Grants. The performance criteria are weighted to reflect the different sectors—two-year and open-access campuses are not held to the same standards as research universities. In Ohio, 5 percent of a community college's and 10 percent of a university's base funding is connected to outcomes like degree and course completion, with a stop-loss provision so that no school can lose more than 1 percent of its funding in any given year.¹⁶

Although it is too early to measure the success of these more recent efforts, earlier performance funding programs have shown promise. One study in Ohio, for example, found that Ohio's performance funding reduced median time to degree for in-state bachelor's students from 4.7 years to 4.3 years and led to a 13 percent increase in bachelor's degrees for at-risk students.¹⁷

Redesign Credit Transfer Policies. State policymakers can play an important coordinating role in facilitating the transfer of credits between institutions. Rather than compelling institutions to accept credits via legislative fiat, states should require that public institutions develop a statewide articulation and

credit transfer policy that fits some basic criteria: students who move from one public institution to another should be able to transfer their credits, and students should have clear, accurate information as to which credits transfer and which do not. The gold standard for credit transfer is developing a common course numbering system that will further facilitate credit portability.

Arizona has taken several steps to help students transfer between institutions.¹⁸ The state has created the Arizona General Education Curriculum, a 35-credit program for community college students, which meets the lower-division general education requirements at the three Arizona University System (AUS) institutions. Students are also able to see which individual courses will transfer through a new online tool, AZTransfer (www.aztransfer.com). Finally, in an attempt to simplify course transfers between community colleges and AUS universities, Arizona has established the Shared Unique Numbering system, which identifies often-transferred courses with a common numbering system. Students know that if they take a course at one campus, it will be considered directly equivalent to the course sharing the same number at another campus.

Measuring Cost-Effectiveness and Return on Public Investment

Public debates about college costs have typically focused on the tuition price students and families pay. Recent increases in tuition and the estimated \$1 trillion in total student debt have captivated the media. But the price consumers pay obscures the true taxpayer cost of providing higher education because it does not account for the state subsidies that allow public colleges to “sell” education at a lower price than it costs them to provide it. Although public investment in higher education is justifiable given the benefits that accrue to society, policymakers and taxpayers must insist that the public dollars they invest are spent wisely.

Unfortunately, a look at the cost per completion at two-year and four-year colleges reveals that it often costs a lot to produce a single credential. This is especially

true at community colleges. As we reported in *Leaders & Laggards: A State-by-State Report Card on Public Postsecondary Education*, 33 states spent more than \$50,000 in education and related expenses to produce a single degree at a two-year college—far more than you might expect given those schools’ reputation as low-cost options.¹⁹ Because so many community college students drop out without completing their degree, two-year colleges spend a lot of money on instruction that does not result in a completion. This matters: researchers have estimated that if half of those who drop out actually earned their degree, those new graduates would net \$30 billion more in lifetime income and generate \$5.3 billion in taxpayer revenue.²⁰

And significant costs per completion are not unique to community colleges; our *Leaders & Laggards* analysis found that seven states spent more than \$80,000 in education and related expenses per completed degree at a four-year institution.²¹ To be sure, these averages obscure some institutions that appear to be extremely cost-effective, but they tend to be in the minority.

Shifting to a focus on cost-effectiveness requires a change in the very culture of higher education institutions. Cost containment and efficiency run counter to the incentives facing most college leaders, who typically pride themselves on *increasing* per-pupil spending rather than reducing it. As economist Howard Bowen has argued, colleges raise all the money they can, and they spend all the money they raise.²²

States simply cannot afford to operate this way. Policymakers are increasingly identifying the cost-effectiveness of higher education as a state policy objective, building measures like cost per degree into state goals and accountability systems. But there is still much work to be done. Three possible reforms stand out.

Collect Finer-Grained Data on Higher Education Revenue and Spending. Higher education policymakers should commit to collecting more granular data on the cost of delivery and the cost per positive outcome (for example, student retention, transfer to a four-year university, or degree completion). At the very least, state policy should call on institutions to disaggregate spending across undergraduate

and graduate levels. Reforms could also require community colleges to report how much of their instructional budget goes to developmental education.

Illinois has been collecting these data for years. Every year between 2002 and 2010, the Illinois Board of Higher Education released detailed cost studies that provide data on instructional costs at the state’s public four-year colleges, broken down by discipline and course level (lower division, upper division, graduate, and professional). The cost studies report the instructional cost per credit hour, broken out by discipline and level, and also report on trends. The State Higher Education Executive Officers (SHEEO) four-state cost study used data from Illinois, Florida, Ohio, and the State University of New York system to examine instructional spending trends.²³

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That just four states have cost data that are sufficiently detailed to be included in the SHEEO study illustrates just how far higher education cost accounting has to go.

Include Productivity and Cost-Effectiveness Measures in Accountability Systems. Without better cost data, policymakers will have a hard time holding institutions accountable for fiscal stewardship. Most states have developed some sort of accountability system for their higher education institutions, but few prioritize measures of productivity and efficiency. Accountability policies should credit not only institutions that make gains in student success, but also those that manage to maintain or reduce their per-outcome costs.

In Texas, the higher education accountability system reports annually on measures of institutional efficiency and effectiveness, including administrative costs as a percentage of the operating budget, space

utilization on campus, and total operating expenses per full-time student.²⁴ Indiana's "Reaching Higher, Achieving More" agenda has also named productivity as a state priority, calling on institutions to "relentlessly pursue opportunities to create efficiencies" and to set annual targets for savings and reinvestment. The agenda highlights cost per degree and on-time completion as the key measures of productivity.²⁵

Reward Institutions That Make Gains in Productivity. Unfortunately, penny-pinching policymakers may see improvements in cost-effectiveness as proof that the institution can make do with even less funding. As James Q. Wilson argued in his book *Bureaucracy*, this dynamic sets up a perverse incentive for public organizations: leaders avoid efforts to contain costs because politicians will interpret budget surpluses as a sign that the organization was given too much money in the first place.²⁶

To avoid such a perverse incentive, policymakers should experiment with policies that reward colleges for gains in productivity. A reward scheme could provide those institutions that reach productivity goals (for example, lowering their cost per degree) with an extra increment of state funding that must be reinvested in instruction, enabling the most cost-effective institutions to serve more students. In years when budgets require an overall reduction in higher education appropriations, such a reward system could soften the blow for the most cost-effective providers.

Improve Transparency to Inform Stakeholders

Top-down accountability measures centered on student success and cost containment will get states only so far. Policymakers must also work to cultivate a higher education market that rewards institutions for successfully educating students and keeping costs low. Though conservative policymakers are fond of promoting market-based solutions to public problems, elected leaders sometimes overlook the critical role government must play in providing information about costs and benefits that make such markets work.

Markets work well when consumers have information on costs, quality, and the likely return on investment

of the various options in their choice set. However, the higher education market still lacks basic, comparable measures of quality or value. That is not to say that easy answers to these questions exist. There are many ways to measure the value of higher education—how much students learn, the labor market success of graduates, their contribution to community and civil society—which must be weighed in relation to the time and money the student invested.

But in the absence of any agreed-upon metrics, rankings like *US News and World Report* have become the default definition of quality, driving a prestige "arms race" that is not in the interest of students or taxpayers. To be fair, other rankings are making an effort to measure value more explicitly.²⁷ But without more systematic, rigorous measures of quality—things like student learning, employment and earnings, and return on investment—prospective students and their families have a difficult time making sound investment decisions and taxpayers can be lulled into thinking that their higher education system is performing well.

With some notable exceptions, states have yet to fully embrace their role as scorekeeper when it comes to higher education data. Most states do collect and report basic information on graduation and retention rates, but all of this information is available elsewhere (from the National Center for Education Statistics's College Navigator website, for instance). In contrast, few states measure student learning or postgraduation success in a systematic way. For example, as of mid-2012, just five states had publicized data on how much graduates from particular programs at particular colleges earned in the years following graduation.²⁸ Similarly, many states have spent a great deal of money investing in flashy websites designed to provide information to prospective students and families about their college options. However, these sites often fail to include the most basic information, like graduation or retention rates.

States should collect and report new measures of quality and value that consumers, public officials, and citizens can use. What follows are two reform ideas.

Measure Student Learning Outcomes. States should require institutions to measure student learning outcomes in a rigorous, reliable, and comparable way. This

is not to suggest that states should coerce all institutions to use the same standardized test or that these tests should be a requirement for graduation. Rather, institutions should have the opportunity to choose from a menu of assessments, with the results made public. Administering an exam twice during a student's tenure can allow institutions to measure the value added by the institution as a whole, providing less-selective institutions with an opportunity to showcase the gains their students make while in attendance. At the two-year level, policymakers should also report the proportion of remedial students who went on to successfully complete credit-bearing courses.

There has been limited progress on this front. The national Voluntary System of Accountability includes information on student learning outcomes at the public institutions that have agreed to participate, with institutions free to choose from among a set of assessments. Since 2004, the University of Texas system has required its institutions to use the Collegiate Learning Assessment (CLA) to measure and report learning outcomes. Results are reported across institutions and across freshman and senior cohorts within institutions. Minnesota's public accountability report, *Minnesota Measures*, provides information on student learning outcomes. Various third-party assessments, such as the CLA, the Collegiate Assessment of Academic Proficiency, and the Educational Testing Service Proficiency Profile have all been used in limited form across Minnesota as the state experiments with how to best gauge student learning.²⁹

Measure Graduate Labor Market Outcomes. Similarly, states should take steps to link data on postsecondary experience with earnings and employment information. Some institutions already try to measure employment and earnings using graduate surveys, but these are expensive to conduct and often suffer from low response rates. Linking administrative data from postsecondary and wage records is likely to be more informative and less expensive in the long run (despite start-up costs). With these data systems in hand, states would ideally be able to connect average earnings to both institutions and degree programs. Done right, this would enable prospective students to say, "If I am an accounting major at Eastern State

University, the average wage one year after graduation is \$50,000," and then compare that to accounting programs at other institutions.

Students who are unsure about what type of program to pursue or what to major in may find this useful as well, as it will provide them with a sense of what credentials are likely to lead to a good job. These data can be particularly helpful to combat the myth that a bachelor's degree is the only path to the middle class. Evidence suggests that graduates from some two-year and certificate programs outearn those with bachelor's degrees, at least in the near term.³⁰

Policymakers must work to cultivate a market for higher education that rewards institutions for successfully educating students and keeping costs low.

Some states are leading the way in linking unemployment insurance and postsecondary records and reporting those data. The Florida Education and Training Placement Information Program (FETPIP) data collection and consumer reporting system looks at the percentage of graduates who are employed or are continuing school for both four- and two-year graduates. FETPIP displays this by both institution and program of study.³¹ Texas's Automated Student and Adult Learner Follow-Up System tracks labor market outcomes for graduates, completers, and non-returners across institutions and programs at two-year and four-year colleges.³² In late 2012 and early 2013, Tennessee, Virginia, and Colorado all released reports on the labor market outcomes of graduates from each institution in the state system, broken down by program of study.³³

Encourage Innovation

Shifting demographics and technology are rapidly changing the contours of contemporary higher education. "Traditional students"—18–22-year-olds living on a four-year residential campus and attending school

full time—make up a shrinking proportion of enrollments (less than a quarter, according to the latest data).³⁴ Today's typical college student is older, often works full or part time, and increasingly faces time and geographic constraints that do not lend themselves to the traditional model. These students are demanding a different post-secondary experience than the traditional student, and online delivery has opened up new opportunities to give it to them. Every week, it seems, we read about a new venture that provides online courses, competency-based degrees, or technology-enhanced student services.

States are discovering that online delivery can increase capacity in high-demand courses, helping students stay on track.

“Traditional” undergraduates at brick-and-mortar institutions can also benefit from new ways of doing business. Budget cuts have led to cutbacks in course offerings, leaving some students locked out of the courses they need and extending their time to degree. States are discovering that online delivery can increase capacity in high-demand courses, helping students stay on track. A bill introduced in the California State Senate calls on college leaders to find suitable online alternatives for the 50 most oversubscribed courses in the public university system so that students who were locked out of the in-person version could take the course online and have it count toward their degree.³⁵ Public colleges are also beginning to experiment with competency-based models of education—in which students accumulate credit for proving mastery of a given subject and can do so as quickly (or as slowly) as they like. Remedial education seems especially ripe for this kind of competency-based approach.

The pace of higher education innovation has been quick, but policymakers would be wrong to sit around and wait for the great disruption. The problem is that policymakers often equate technology with innovation, citing particular new ventures that bubble up as proof that their higher education system is “embracing innovation.” But technology does not equal innovation. Rather, innovation occurs when organizations use

technology to redefine the way they do business, raise the quality of their product, or lower costs. Layering technology onto existing models can build capacity and improve efficiency, but this may not improve quality or make college more affordable.

Leaders should instead pursue reforms that can actively encourage innovation and competition among existing and new providers. Unfortunately, state-level regulatory policies often erect barriers to entry that prevent new providers from serving students. Costly and redundant licensure processes can discourage innovative institutions from setting up shop. Most states are quite restrictive, charging hefty licensure fees and filling burdensome application processes with minutiae. And among existing institutions, state policies around finance and student aid may dissuade leaders from experimenting with new models.

If one goal is to build human capital in the most efficient way possible, state policymakers should ask not only how they can make their existing cadre of institutions better and cheaper, but also how they can create environments that attract the best mix of low-cost, high-quality providers from across the higher education spectrum and hold them to high standards. Three reform ideas in particular seem promising.

Create Charter Universities. Observers have argued that state policymakers can promote innovation by creating new, independent organizations that are free to do things differently. Harvard University business professor Clay Christensen and colleagues have suggested that states should promote innovative models by creating “autonomous business models” that are free to operate in different ways.³⁶ Oklahoma State University's Vance Fried argues that states could take a “corporate venturing” approach to higher education innovation by building new, standalone providers that are purposely kept separate from traditional institutions and allowed to innovate.³⁷ Such a venturing approach would encourage new models of delivery to emerge while ensuring that new providers are held to rigorous accountability standards.

Indiana, Texas, and Washington State have taken one approach: inviting Western Governors University, an online, competency-based provider, to set up a branch in the state that operates as an extension of

the state system. But states could be bolder, perhaps adopting lessons from the “chartering” model that has taken root in K–12 education, whereby providers sign onto rigorous, temporary performance agreements in exchange for the freedom to provide education as they see fit. Providers that do not meet goals and targets will have their charter revoked, while those that meet targets will be renewed.³⁸

Limit Barriers to Outside Providers. Too often, state licensure boards act as cartels, designed to protect the existing system of providers by keeping new competitors out. The protectionism often borders on the absurd. As of 2012, Nevada required the name, address, phone number, and amount invested for all investors; character references for institution directors and each academic program director; and “a flow chart, outline or similar document depicting how the class will be taught on a day-to-day basis, including as a minimum the completion time for each graded objective.”³⁹ Minnesota made headlines when it came to light that it had barred Coursera from providing free online courses to state residents. After an uproar, the state revised its policy on massive open online courses.⁴⁰

To fully leverage the possibilities of digital learning, state leaders should facilitate access to high-quality providers of courses and programs regardless of where they are headquartered. This does not mean adopting a *laissez-faire* attitude toward regulation. Quite the contrary: state policymakers should establish rigorous, outcomes-based licensure standards and reasonable fees, then hold new providers to high standards. But leaders should also strip away the burdensome measures of inputs and process that discourage market entry. Rethinking authorization requirements will entail taking on powerful state interests—many sitting members of licensure boards are higher education providers—but it can improve access to low-cost providers.

Develop New Pathways for Low-Cost Remedial Education for High School Students. State policymakers across the country are increasingly expressing frustration with the high cost of providing remedial education. More than 50 percent of students who arrive at community colleges qualify for some amount of remediation, and remedial enrollment is negatively

correlated with persistence and completion.⁴¹ In the cases when these students do not complete their degrees, states and students are in the unenviable position of paying full price for credits that do not count toward a degree.

Instead, states should redirect some of the money they currently spend on remedial courses to create programs that assess students’ academic needs before matriculation and plug them into low-cost options for remedial coursework and tutoring (online, hybrid, or in-person). The California State University system’s Early Assessment Program assesses high school students’ college readiness in their junior year and provides those who fail with opportunities to build necessary skills during their senior year of high school. Early results suggest that participation in the program reduced the probability that California State students would end up in remediation in their freshman year.⁴²

In addition to these three reforms, some states have actively embraced innovation in other ways. Georgia’s E-Core initiative allows students in the University System of Georgia to take their entire core coursework—required of all students—online.⁴³ In partnership with Udacity, Georgia Tech is developing an online master’s degree in computer science that will cost \$7,000 and serve 10,000 students.⁴⁴ In Wisconsin, Governor Scott Walker announced the “UW Flex” program, a competency-based degree program, to great fanfare.⁴⁵ The program will allow Wisconsin students to work toward a degree at their own pace and target high-need areas like information technology and health care. The Kentucky Community and Technical College System’s “Learn On-Demand” system also fits into the competency-based category and allows students to progress through learning modules at their own pace (including remedial education options). The program has seen “modest, but steadily increasing returns” over the past three years, and the system currently enrolls 33,000 online students.⁴⁶

Conclusion

Reform-minded state policymakers have an opportunity to remake their higher education systems for the 21st century, but it will not be easy. Each of the

reforms we have discussed will likely meet opposition from established interests—college leaders, faculty, and even the governing boards that oversee them. But the current system does not serve other constituents—like students, families, and taxpayers—particularly well. As is the case with K–12 reform, leaders must be brave enough to take on powerful political interests in efforts to serve students better.

We listed four areas in which enterprising state leaders can take charge: creating **incentives** for schools to improve student success, become more productive, and experiment with new approaches; rewarding **cost-effectiveness**; improving **transparency**; and encouraging **innovation**. The key is to create conditions under which a more productive, cost-effective, and student-centered higher education market can take root.

Reform-minded state policymakers have an opportunity to remake their higher education systems for the 21st century, but it will not be easy.

Prescriptive, top-down measures that try to force institutions to behave in particular ways or to adopt particular policies will be hard-pressed to generate improvement. A much better approach is to align institutional incentives with student success and productivity, empower consumers with information, and encourage competition. Those institutions that do not adapt to this new world will have trouble attracting students, while those that deliver good value and a high return on investment will capture the market. And those that leverage innovations like online delivery and competency-based programs will have more capacity to do so.

Much of this runs counter to the way state higher education systems have traditionally been run—institutions have divided up the market, offered complementary rather than competing programs, and counted on the state to subsidize an increasingly top-heavy business model. When students were geographically bound, universities and community colleges had a comfortable monopoly. But those boundaries no longer exist, and competition is coming their way in the form of new providers

that look nothing like existing colleges. State policies can either try to thwart this change, to the detriment of their human capital, or embrace it in the ways we have described.

About the Authors

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Notes

1. Phil Oliff, Chris Mai, and Vincent Palacios, *States Continue to Feel Recession's Impact* (Washington, DC: Center on Budget and Policy Priorities, June 27, 2012), www.cbpp.org/files/2-8-08sfp.pdf.

2. Richard Florida, *The Rise of the Creative Class* (New York: Basic Books, 2002).

3. See Anthony Carnevale and Nicole Smith, “The Midwest Challenge: Matching Jobs with Education in the Post-Recession Economy,” Georgetown Center for Education and the Workforce, www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/midwest-challenge.pdf.

4. Anthony P. Carnevale, Nicole Smith, and Jeff Strohl, *Help Wanted: Projections of Jobs and Education Requirements through 2018* (Washington, DC: Georgetown Center on Education and the Workforce, 2010), <http://cew.georgetown.edu/jobs2018/>.

5. US Chamber of Commerce, *Leaders & Laggards: A State-by-State Report Card on Public Postsecondary Education* (Washington, DC, June 2012), <http://icw.uschamber.com/reportcard/>.

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