Gainful Employment: 
The Real Issue

BY MICHAEL MANDEL, PHD

Sometimes a proposed piece of legislation or new rule can catalyze debate about a key issue. That seems to be the case for the ‘gainful employment’ rule currently being proposed by the Department of Education (DOE). The rule addresses a very real problem: The large amounts of debt being taken on by some students, mainly those attending for-profit colleges. However, if enacted in its current form, the new rule would require many institutions—for-profit, non-profit, and public alike—to follow complicated new procedures that could greatly limit their flexibility in offering new programs and potentially reduce the educational options open to students.

Are the benefits of the gainful employment rule worth the costs? DOE’s narrow cost-benefit analysis says they are, but its analysis fails to address a broader issue: How should higher education institutions be expected to deal with an uncertain and rapidly changing economic environment? In a world where tomorrow’s labor market may be very different than today’s, should colleges be encouraged to anticipate the changes, or should they stick to the steady teaching of accumulated knowledge and skills for existing jobs?

This policy brief will make one observation about today’s economy, and then draw three implications for policy. The observation is simple: Young educated workers face vastly more uncertainty in the labor market than recent generations of graduates. Young workers with a bachelor’s, associate degree, or other post-secondary education must deal with much higher unemployment rates, falling real wages, and a job landscape that keeps shifting.

The first implication: The increased uncertainty means that colleges have to take more responsibility for informing students about what their education dollar is buying them. In particular, the for-profit sector needs major

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reforms to deal with what a recent GAO report called “deceptive and questionable marketing practices.” With students facing a tougher time in the job market, for-profit institutions must move away from high-pressure sales tactics, increase transparency about potential outcomes, pay more attention to debt levels, and raise admissions standards. Non-profits and public institutions must bite the bullet as well by offering more information about estimated payback periods and making sure that their students don’t graduate with excess debt.

Second, the uncertain economic environment means that the gainful employment rule’s well-intended but obsessive focus on debt-to-income ratios and repayment rates will have unintended negative consequences. Facing high unemployment rates and falling real wages, many young educated workers are going to have a lot more trouble paying back their student loans, even if they got a perfectly fine education. That’s especially true if they live in an area hit hard by the recession.

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Third, and probably most important, the proposed DOE rule errs badly in constraining the ability of colleges to offer new programs, a must in an uncertain and rapidly changing environment. Any new program that prepares students for gainful employment would have to go through a complicated process of getting approval from the federal government in order to be eligible for federal student aid. In particular, each approval would require documentation from potential employers showing that jobs would exist for the graduates of the proposed program.

Such a process might make sense in a stable economy, where a benevolent regulator can assess where more workers are needed and where they aren’t. But in the current state of economic tumult, such top-down regulation is going to slow down the ability of U.S. higher education to adapt to changing conditions. If anything, the Department of Education should be encouraging for-profit, non-profit, and public institutions to react more quickly, and be more flexible.

**Economic Backdrop**

It’s safe to say that ten years ago, no one would have predicted the evolution of the labor market for educated workers in the 2000s. In September 2000 the unemployment rate for college-educated workers 25 years and older was a remarkable 1.9 percent, and the unemployment rate for workers with some college or an associate degree was nearly as low, 2.6 percent. In terms of pay, young educated workers had just finished a spectacular six year run: From 1994 to 2000 real earnings for young workers with a bachelor’s degree had risen by a stunning 25 percent, far outstripping the gains for older workers.

At the time, education was thought to be the safest investment that any young person could make, especially since the information revolution seemed to put a premium on smarts. In 2001 the Bureau of Labor Statistics (BLS) projected that computer and mathematical occupations by themselves were going to add 2 million workers in the 2000s. The BLS ‘hot job’ list—the one quoted by career counselors, news organizations, and colleges—projected that the top seven fastest growing occupations in the 2000s would all be information technology-related, with all but one requiring a bachelor’s or an associate degree.

What happened next? The world changed: The 2000s brought the tech bust and the offshoring revolution. Computer and mathematical occupations generated only about 500,000 net new jobs, a mere quarter of the 2 million forecast. The housing boom created a lot of construction jobs, but those didn’t necessarily require a bachelor’s or even an associate degree. Finance jobs did require a good education, but Wall Street firms did much
of their expansion overseas, so the securities industry barely climbed past its 2001 employment peak before the financial meltdown hit.

Instead, the steadily expanding health and education sectors became the main job magnet for young educated workers. Until very recently, the accepted wisdom was that those sectors would continue to hire: Eight of the top 10 jobs on the latest BLS ‘hot job’ list, published in November 2009, were in health, fitness, or related fields. And the Department of Education’s own projections, also published last year, show a steady increase in the employment of elementary and high school teachers over the next few years.

Following student demand, labor market trends, and government projection, colleges offered more and more courses in health, education, and related fields. For-profits reacted first, being more flexible, less capital-intensive, and closer to the market, followed by non-profits and public institutions, which have also shown flexibility.

**Increased Uncertainty**

Recent events, however, have eliminated even those havens for educated workers. The financial squeeze on state and local governments means that the number of local education jobs has shrunk for two straight years, an event that has happened only once before in the past half-century. And while healthcare employment is still rising, no one knows what will happen to that job market when healthcare reform takes effect.

Not surprisingly, students have been hunting out the small number of non-health fields that do have expanding employment. For example, Internet firms such as Google and Facebook have continued to hire, as have other communications-related fields such as wireless. In response to student demand and market trends, colleges have been adding courses and certificates in areas such as social media marketing.

Still, the disruption in the labor market for young educated workers has been stunning. The clearest sign is the massive plunge in the real pay of young educated workers. From 2006 to 2009—three short years—workers aged 18-34 with only a bachelor’s degree saw their real earnings drop by 11 percent. What this means is that real pay for young educated workers is now back to 1996-97 levels.

A similar dismal picture holds for young workers with an associate degree. Their real pay has declined by 6.4 percent over the past three years, also putting them back to 1996-97 levels. Young workers with postsecondary education but no degree have experienced a 6.9 percent decline in real earnings.

**FIGURE 1: LABOR MARKET DISRUPTION: DECLINE IN REAL EARNINGS FOR YOUNG EDUCATED WORKERS, 2006-2009 (AGES 18-34)**

<table>
<thead>
<tr>
<th></th>
<th>Some college, no degree</th>
<th>Associate degree</th>
<th>Bachelor’s degree only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decline in Real Earnings</td>
<td>-6.9%</td>
<td>-6.4%</td>
<td>-11.1%</td>
</tr>
</tbody>
</table>

*Data: Census Bureau, PPI calculations*

Of course, despite the bad times, it’s still true that educated workers earn more than their less-educated counterparts. In the 25-34 age group, for example, a bachelor’s degree holder working full-time earns 55 percent more than a high school graduate with no college.
TABLE 1: STILL A WIDE EDUCATION PREMIUM

<table>
<thead>
<tr>
<th>Full time workers, aged 25-34</th>
<th>Average earnings, 2009</th>
<th>Percentage above high school grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelor’s degree</td>
<td>53,483</td>
<td>55%</td>
</tr>
<tr>
<td>Associate Degree</td>
<td>42,391</td>
<td>23%</td>
</tr>
<tr>
<td>Some college, no degree</td>
<td>39,110</td>
<td>13%</td>
</tr>
<tr>
<td>High school graduate, no college</td>
<td>34,594</td>
<td>-</td>
</tr>
</tbody>
</table>

Data: Census Bureau

But it’s very clear that the private returns to education are riskier than we thought they were, at least in the short run. On average, colleges can no longer assume that the real earnings of their graduates will keep going up in the short-run, or even stay the same. The fact is, young educated workers have been whipsawed by the changes in the economy.

The Implications of Uncertainty
In the 1980s, the 1990s, and most of the 2000s, educators could credibly say that education was the best possible investment a young person could make. Rates of returns were high enough, and sure enough, that it almost always made sense to borrow for school, even if the economy sagged a bit. In that sort of economic environment, for-profit colleges could justifiably pursue a strategy of “student as customer, customer as king,” since students would almost certainly gain from their education.

But at least for now, the economy seems to have changed. Education is still a great investment on average. But the payoff has become riskier, especially if a student has to take on too much debt. This is just simple and straightforward economics, but it has big implications for colleges.

First, it means that higher education institutions of all stripes are going to have to pay a lot closer attention to the link between student costs and student outcomes.

To prosper, for-profit colleges will have to take on more responsibility for their students. That means more transparency about outcomes, even if the numbers don’t look great. In many cases, for-profit colleges will have to develop new admission standards or raise existing ones. And they will have to make realistic assessments about the ability of students to repay their loans, given the career the student is entering and current economic conditions.

The same issues apply, in a slightly different form, to non-profits and public institutions, which will also have to start offering up plausible statistics on the short-term and the long-term return on investment. If the colleges don’t do it, the federal government will, and the result will look even worse than the gainful employment rule.

Second, the proposed regulation is far too focused on debt-to-income ratios and repayment rates as a measure of a ‘good’ program.

The gainful employment regulation addresses a real problem. Unfortunately, the proposed rules for debt-income ratios and repayment rates are designed for a stable economy when the reality is far different. The severe drop in real wages and rise in unemployment means a sharp increase in students struggling to pay back their loans, even when they got their education from a reputable program. In particular, we’d expect to see debt-to-income ratios rising and repayment rates falling in hard-hit states such as Florida, where the unemployment rate has gone from 3.5 percent in 2006 to around 12 percent today.

With many parts of the country facing such big jumps in unemployment, it’s very possible that the regulation may force schools to shut down programs precisely in those economically-challenged states where retraining is needed the most.
In addition, the regulation could very well force colleges to prefer students who have a better chance of paying back their loans. This could lead colleges to discriminate, intentionally or not, against poorer and minority students.

The DOE tried to overcome these problems by giving colleges multiple ways to meet the requirements. Unfortunately, the result is that the proposed rules for measuring debt-to-income ratios and repayment rates are reminiscent of the complexities of the international tax code. That’s not a good thing.

The Department of Education should be encouraging for-profit, nonprofit, and public institutions to react more quickly. The American Council on Education, for example, noted that “the proposal would impose an extremely bureaucratic approval process, place a high burden of proof on institutions, and hamper the ability of colleges to respond to new and emerging workforce needs.” The American Association of Community Colleges commented that the proposal would “add a layer of federal bureaucracy that is unnecessary and redundant and will impede the ability of community colleges to quickly and effectively respond to workforce needs.”

Third, the increased uncertainty means that we absolutely must encourage flexibility in the higher educational system. Unfortunately, the proposed regulation moves in the wrong direction by mandating a complicated approval procedure for new programs. The regulation says “(b)efore an institution offers an additional program” that prepares students for gainful employment, the institution must “apply to the Secretary” to have the program “approved” in order to be eligible for federal student financial assistance. The application must include:

“Projected student enrollment for the next five years for each location of the institution that will offer the additional program”

“Documentation from employers not affiliated with the institution affirming that the curriculum of the additional program aligns with recognized occupations at those employers’ businesses, and that there are projected job vacancies or expected demand for those occupations at those businesses. The number and locations of the businesses for which affirmation is required must be commensurate with the anticipated size of the program.”

Can anyone say the word ‘slowdown’? This approval process sounds almost as bad as doing an environmental impact statement—and we know how long getting one of those approved takes. What’s more, it’s backward looking, since it relies on finding existing employers to document workforce needs. The real job growth, as has been shown many times, comes from startups and other new firms.

When the economy starts growing again, we want our educational institutions to be able to react quickly, not drag behind. DOE’s proposed approval process is a disaster, hurting the parts of the educational system that are the most flexible. That includes for-profit institutions, and also those non-profits and public institutions that try to anticipate educational needs.

The real pay for young educated workers is now back to 1996-97 levels. Consider the following: Plenty of colleges—for-profit, non-profits, and public are offering certificates and courses on social media now. Under the DOE’s proposal, they would still be collecting documentation from employers and waiting for accreditation. Similarly, how can
colleges adapt their courses to healthcare reform if they have to get approval for every change?

Conclusion
We’ve come to a crucial point in the development of the U.S. higher educational system. Changes in the economy mean that the era of easy growth is over. Successful non-profits and public institutions must become more like for-profits, efficient and quick to react. Successful for-profits must become more like nonprofits and public institutions, not simply focused on short-term profits. The ones that do not converge will fall by the wayside.

The new DOE gainful employment rule will do nothing to encourage this evolution. Our goal should be a system of higher education that reacts quickly to change, yet the DOE wants to impose top-down constraints on new programs. We want to provide educational opportunities to a more diverse population, yet the DOE wants to impose rules that would likely reduce access to education for minorities. We believe that having a more educated population is essential, especially in weak economic times, but the DOE proposal may very well penalize programs in economically hardest hit states.

It’s essential for the Department of Education to take a step back and reconsider the gainful employment rule. There are better ways to deal with the problems of high post-secondary costs and student debt burdens, and PPI will explore them in future reports.
Endnotes

3. PPI calculations based on Census Bureau income data for workers aged 18-34 with bachelor’s degree only.
5. PPI calculations based on Census Bureau income data released September 16, 2010.
6. These figures are not adjusted for demographic characteristics.
About the Progressive Policy Institute

The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through research, policy analysis and dialogue, PPI challenges the status quo and advocates for radical policy solutions.

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