How to Save American Colleges

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With acceptance letters in hand, millions of high-schools seniors ruminating over where to attend college—and their parents who are panicked that their kid might pick the place with the best climbing wall—should all take a breath: It doesn’t much matter where you go to college.

What matters is “how you go,” says Purdue University President Mitch Daniels, the former governor of Indiana. He then lays out the results of the Gallup-Purdue Index, a national survey of 30,000 college graduates that was first released last year. The survey attempts to quantify not only what graduates earn but also how well they are navigating adult life.

A mere 39% of college graduates report feeling engaged with their work, and in that group as many hail from top-100 schools as don’t. The three most important contributions that college makes to a sense of workplace thriving after graduation: Having one professor who made you excited about learning, feeling as though teachers cared about you, and working with a mentor. Graduates who checked those boxes were more than twice as likely to sense they are flourishing at work.

But only 14% of those surveyed said they had hit that trifecta in college. Other positive factors from undergraduate experience: working on a long-term project, having an internship and participating in extracurricular activities. Where graduates went to college barely registered as a predictor of job satisfaction.

Mr. Daniels spearheaded the research, and his penchant for data mining is one reminder that he is a former White House budget director. His mantra is “higher education at the highest proven value,” and more than once during our conversation in his office at Purdue he refers to Joseph Schumpeter, the economist who popularized the concept of “creative destruction.” Mr. Daniels also offers a quick economics tutorial about “Giffen goods,” products for which demand grows even as their price increases—like, say, a college education today.

His office is a corner room that is capacious without being grand, reflecting a college administrator who has set out with a single-minded focus on cutting costs, taming the tuition monster, and increasing the quality and value of college degrees. The most notable decorations are his Bundy duck decoys and a photo commemorating the time he rode his motorcycle, a Harley-Davidson, across the football field during a halftime show as the school's marching band spelled out "MITCH."

That was two years ago, soon after Mr. Daniels arrived at Purdue. His first order of business: freeze tuition.

"I had a sense, first of all, it seemed like the right thing to do. Not to skip over that. But secondly that we probably could do it without great difficulty," he says. For decades college tuition has outpaced inflation, forcing students to increase their borrowing, but next year's Purdue seniors will have never seen a tuition increase.

"I thought this whole process—it's sort of like a bubble, and people are using that term—just couldn't go on much further, and so why not get off the escalator before it broke," he says.

Not many colleges have followed, and Mr. Daniels has a few theories about why. "Corporate boards 15 years ago or so were roundly and rightly criticized for being too compliant with the desires of management. If this was true of corporate boards, I think it's really been true of a lot of college boards and trustees," he says. "They have such an affection for dear old alma mater, love those 50-yard-line seats, 'Whatever you want to do, Mr. President.' And so it's been observed a long time that colleges will spend everything they can get their hands on, in the absence of either market pressure or stewardship by a strong-minded board."

There is also what he considers an "insidious" idea that "if we don't raise our price, people will think we don't have confidence in our product." He points out that "in the absence of proof, people assume a higher price must be a better product or education." But according to data released last year, half of high-school seniors accepted by their first-choice college attended a different school, and most cited cost as the reason.

The jig is about up. "I don't know what the rate of the shake out will be, but you can already see the front edges," Mr. Daniels says, referring to colleges that have begun shutting down. "A year or two ago, it was schools you hadn't even heard of. This year it was Sweet Briar," he says, of the 114-year-old Virginia women's college that announced last month it is closing because of "insurmountable financial challenges."

Mr. Daniels notes: "The top 10 endowments have something like a third of all the money, and the top 40 have two thirds or close to it. If you're outside that group, and you're charging these tuitions, I hope you've got a Plan B."

Mr. Daniels lists what he has discovered are the top concerns of Purdue students—the cost of tuition, the price of room and board and textbooks—and seems to be working his way down that list, including nitty-gritty projects like reducing the cost of the meal plan by 5%. The college has deputized 18 loan counselors to warn students about borrowing too much; in the past two years, total debt has dropped $40 million. Amazon approached

Mr. Daniels—ostensibly because the company sees him as an innovator—and worked out a deal to supply students with discount textbooks.

Mr. Daniels has also set out to measure what Purdue students are learning. More than 35% of college students at a range of four-year institutions showed no growth between freshman year and commencement in areas like critical thinking and writing, according to research by Richard Arum and Josipa Roksa in their 2011 book "Academically Adrift: Limited Learning on College Campuses," a work Mr. Daniels keeps on his bookshelf. Similar findings emerged from a 2005 Education Department report that found more than half of four-year college graduates could not compare viewpoints in newspaper editorials.

"I do think there's a duty to try to validate a product charging this much money. People are saying: Show us there's growth during those four years," he says. "Particularly if you're associated with a university you think is doing a fine job, I see this as an opportunity more than a defense mechanism." The Purdue faculty, however, seems less enthusiastic about the opportunity—and though Mr. Daniels doesn't say so, some teachers seem to be slow rolling his efforts by claiming they need more time to develop what they deem an academically valid standard.

Mr. Daniels also has some advice for Congress as the Higher Education Act of 1965 comes up for reauthorization. "Clearly an opportunity in deregulation," he says. The act's provision for Free Application for Federal Student Aid, a form that students use to figure out federal aid eligibility, has 108 questions, many of them useless.

Another problem: The aid-application system requires the disclosure of parental savings in addition to their current income, meaning it punishes parents who planned ahead. A potential new wrinkle in government hostility to saving for tuition came in January, when President Obama floated the idea of taxing so-called 529 accounts used by middle-class savers putting away money for their children's education. A week later the administration backtracked amid irate public reaction. As Mr. Daniels dryly notes, "That one had a half-life somewhere at the bottom of the periodic table."

In his drive to free students of debt, Mr. Daniels is considering innovations such as an unconventional financing option known as the income-share arrangement. Instead of taking out a loan, students promise an investor a certain percentage of their income for a fixed number of years. Graduates who earn more pay more, and those who earn little pay little. The concept, Mr. Daniels points out, isn't new. "Like a lot of my ideas, Milton Friedman thought of it decades before," he says with a grin.

Pondering what to call the income-share arrangement if he brings it to Purdue, home of the Boilermakers, Mr. Daniels has said he's thinking about calling it "Bet on a Boiler." The program would "start as something for people who had an affinity for a university," namely enthusiastic alumni. If it works, he says, the program could appeal to other investors: "Somebody who has never been within a thousand miles of here might be very smart to bet on one of our chemical engineers."

One roadblock: It’s unclear how the feds would treat such contracts. He testified about the concept before a congressional committee in March, and then came media howling that Mr. Daniels favored “indentured servitude.” He calls that charge “nonsense,” noting that “you don’t have to work, and by the way if you don’t, it’s no skin off yours; the investor loses.” If anything, being beholden to a bank for 20 years is indentured servitude.

As a college administrator, Mr. Daniels has also taken notice of the bureaucratic accreditation process that is a prerequisite for receiving federal funds. Six regional groups blessed by the Education Department, as well as a coterie of program-specific organizations, sign off on an institution’s programs. The ostensible goal when Congress coupled federal funding with accreditation in the 1952 G.I. Bill was to protect students from colleges hawking worthless degrees.

That hasn’t happened. Instead, universities devote considerable resources to a useless process. Almost no institution misses the mark, and since accreditation is done geographically, an upper-tier school like Purdue is accredited by the same agency that has given accreditation to Indiana University East, where the six-year graduation rate is about 18%.

Purdue pays $150,000 annually in direct accreditation fees, working with any combination of 17 agencies—but that doesn’t include time. Stanford University ProvostJohn Etchemendy said in a 2011 letter that the school spent $849,000 in one year of a multiyear accreditation. “One suspects you have some basic inertia and some folks would rather spend their time being busy with this than doing something more productive,” Mr. Daniels says with a faint smile. “I refer of course to the people on other campuses.”

‘All this time and money and in the end some really lousy schools get accredited, so I’m not sure what the student—the consumer—learns. An awful lot of make work involved, or so it seems,” he says. Sen. Lamar Alexander (R., Tenn.) is considering reforms, including untangling accreditation from federal funding, an idea that Mr. Daniels says “ought to be looked at.”

Mr. Daniels has made a habit of searching out what “ought to be looked at” in his two years running Purdue, getting his school in shape for when the higher-education bubble implodes. It’s all part of trying to provide the accountability that students and parents are starting to demand. “Higher education has to get past the ‘take our word for it’ era,” he says. “Increasingly, people aren’t.”