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New Education Trust Report Passes the Ideological Litmus Test: Profits Have No Place in Education

by Daniel L. Bennett

The Education Trust released a report last week entitled, *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*. The report is just another one of many recent loathing attacks on the for-profit sector of postsecondary education that offers virtually no new insight of the industry. It instead relies on the same recycled data points (high student loan default rates, low graduation rates, etc.) that critics, who are steadfast in their belief that profit has no place in education, use to paint an ugly picture of the sector. As my econometrics professor has often repeated, there are no truths in statistics. Since Neal McCluskey at Cato does an excellent job of pointing out the flaws in the report's use of data to make its case, I'll address a few other things about the report.

First of all, the author's ideology is pronounced early in the report, as they state:
the most vulnerable in society being harmed by underregulated for-profit colleges that value double-digit stock growth and shareholder returns over student success.
This statement reveals to me that the authors have a fundamental mistrust (and frankly misunderstanding) of capitalism, markets, and human nature and believe that government is the solution to all of society's problems. It also suggests that they will make no attempt to present a balanced case of the sector. As Richard Vedder, Adam Lucchesi and I indicated in our recent report on the sector:
Economics would suggest that for-profits can only make a profit by providing educational services that are in high demand. Those educational services would not likely be in high demand for long if they were of dubious quality or did little to increase a student's employability. The track record of for-profit education is long enough at this point that if the industry were providing a product of little value, the customers would be aware of this and simply go away. They have not. Demand at for-profits is as strong as ever. If demand for a product is strong, the product must be providing something of value for the customer.
The ET report also reveals the author's misdiagnosis of the state of higher education in its entirety. As they unleash a wrath of condemnation on the for-profits, who admittedly do have some serious problems, they appear to have found the public and private non-profit sectors not-guilty of similar offenses. Consider the following statements:
Low-income students and students of color are getting access, but not much success. And access without success—without graduation, without employment—is something the nation cannot afford.

Students' inability to pay back the debt strongly suggests that the credentials students are earning at these schools, with the intention of preparing themselves for lucrative jobs and careers, may not be worth the cost. Even if they graduate, it seems clear that they are not

entering the jobs, and bringing home the income, they had planned for when they entered the institution.
I largely agree with the two statements as a public policy concern; however, the authors use them solely to describe the for-profit sector, completely ignoring the fact that both of these statements can be used to accurately describe the current state of public and non-profit higher ed as well. See past posts from my CCAP colleagues Christopher Matgouranis and Richard Vedder for empirical evidence of this.

Finally, the ET's report has a section titled "At What Cost?" in which it decries the so-called "high cost" of for-profit colleges by comparing tuition fees to those in the public and non-profit sectors. The authors make the same analytical error that many critics of for-profit education do in completely ignoring the fact that public colleges receive exorbitant amounts of public direct subsidies that are supposed to be used to defray the out-of-pocket cost for students (in reality, they are partially used to expand university bureaucracies and gentrify campuses). Once these and other indirect subsidies (e.g. tax exemptions) are considered, the for-profit colleges sell education at a total societal cost comparable (quite possibly lower) than the public sector.

Groups such as Education Trust continue to push for "enhanced regulatory techniques" to be imposed on the for-profit sector. While I agree that there are some serious issues in the sector, such as soaring debt loads and misuse of public funds, that need to be addressed, these issues are not endemic to the for-profit sector. As a public policy matter, we need to examine the weaknesses, as well as strengths, in all of higher education. This should not be limited to pointing out the flaws in one sector, while simultaneously ignoring its strengths, and overlooking the problems in another sector.