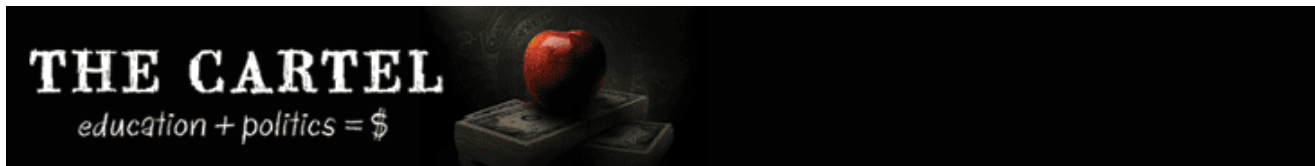


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# An Interview with Neal McCluskey: Is there a Conspiracy? Is there a Conspiracy Theory?



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**Michael F. Shaughnessy - The Government Accountability Office was investigating for-profit colleges at the behest of Senator Tom Harkin (D-IA), chair of the Senate Health, Education, Labor, and Pensions Committee.**

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**First of all, what exactly is this GAO (Government Accounting Office) doing in terms of dabbling in public and private college life?**

The Government Accountability Office was investigating for-profit colleges at the behest of Senator Tom Harkin (D-IA), chair of the Senate Health, Education, Labor, and Pensions Committee. The justification for

investigating the schools is that a lot of federal money flows to them through students using federal student aid programs.

- 2) **Could you give us a break down on how many for profit colleges there are in the U.S. and how many private and maybe some average statistics on costs?**

According to the U.S. Department of Education's Digest of Education Statistics, in 2008-09 there were about 1,700 public degree-granting institutions, 1,600 not-for-profit private institutions, and 1,100 for-profit schools.

To give costs, you first have to define “cost” -- a big problem in higher education policy debates. I’ll define it for our purposes as the tuition and fees charged by schools, which is what I think most people mean when they ask about costs. That, however, typically refers only to before-aid prices and has little real connection to the actual cost of providing an education. This is an especially important distinction as most of the debate over for-profit colleges has to do with “sticker prices,” not the actual cost of providing an education.

It also ignores crucial information like taxpayer subsidies going directly to public colleges and universities. With those provisos in mind, just based on published tuition and fees, the average four-year public school “costs” (for in-state students) \$6,319; the average four-year, nonprofit private school costs \$24,692; and the average four-year for-profit costs \$14,603. For two-year schools, publics cost \$2,137; nonprofit privates \$12,424, and for-profits \$13,853.

If you want to get a sense of the total cost to taxpayers of college, a terrific place to look is the recent report by Robert Shapiro and Nam Pham, [Taxpayers’ Costs to Support Higher Education](#).

When all is said and done, Shapiro and Pham find that for-profit schooling ends up costing taxpayers significantly less than public and private nonprofit schooling.

**3) We have a pretty Democratic Congress- why would they not favor private for profit colleges? What is the rationale or reason (or maybe I am just naïve?)**

I’m sure there are multiple reasons. One, no doubt, is that some Democratic legislators see the very high loan default and program completion rates of for-profit schools and think that they are serious problems that need to be addressed. And they are right, except that those are problems that need to be addressed in all sectors of higher education.

Others, unfortunately, seem determined to attack for-profit school because the school owners dare to be forthright about seeking a profit, unlike most nonprofit schools that rack in as much money as they can but instead of giving it to shareholders pour it into cushier facilities, more administrators, fewer teaching hours, and other forms of “profit.” I would also guess that there are some legislators who really would like to address the rampant waste throughout higher education but think attacking for-profits is the only politically viable strategy. Traditional colleges have very powerful lobbyists, can give out honorary degrees to friendly legislators, and are generally populated with liberals. For-profit schools don’t have similar political clout.

**4) What is up with these modified reports? And how many reports do these organizations release a year? ( I realize this is the end of the year)**

There has been a spate of reports attacking for-profits this year, an eruption no doubt fired by Sen. Harkin’s decision to publicly abuse for-profit schools as loudly and often as possible, as well as new Department of Education regulations for the sector. Most of these reports have been unrevised, at least to my knowledge, and many have made highly flawed, but nonetheless transparent, arguments.

The one major report that has been revised, however, is a doozy: A GAO report on “secret shopper” investigations of select for-profit schools. This report was released as GAO investigator testimony to Harkin’s committee on August 4, and it was portrayed as revealing rampant dirty-dealing and abuse by admissions counselors and other employees at for-profit schools.

From the get-go the report was blown out of proportion by Harkin and other for-profit slayers, who used it to smear the entire proprietary sector despite the GAO itself being very clear that the schools it visited were specifically targeted, not randomly selected. Unfortunately, it has since come to light that the GAO very likely portrayed the schools they visited in worse light than was accurate.

A revision of the report released by GAO on November 30 – but with no press release, fanfare, or other meaningful effort to inform the public of the changes – contained numerous revisions that both softened the portrayal of the schools and suggested that the GAO knew that their original report was distorted. Moreover, the public still hasn’t been given access to the full “secret shopper” recordings to know what really happened.

For-profit schools are hardly perfect – it shouldn't be news that you can find some malfeasance in some schools. It should be big news, however, if the GAO – which is supposed to be an honest broker – turns out to be biased.

**5) In your mind, what are the advantages and disadvantages of a for-profit college or university?**

The advantages are efficiency and scale. On the former, a for-profit school will generally try to provide the best product as cheaply as possible because that is what's in its best interest. It must provide the best product to attract customers, and it must do it as cheaply as possible to compete with other schools and maximize profits. Such schools also provide education on a broad scale because, generally speaking, they make more profit by getting a good product to more people. Not-for-profit schools do not have similar incentives: they plow their money back into the school itself – they're not allowed to have investors – and generally want to reward the existing employees, not expand their operations.

The main problem with for-profit schools is the same problem we see throughout higher education: The incentive for customers to demand the cheapest, most efficient education – or no higher education if they aren't really up to the task – is blown up because they are spending huge amounts of other people's money.

Give everyone a free second dollar for a hotdog they would only have spent one dollar on – and only let them spend the free buck on a hotdog or hotdog-related expenses – and they'll demand relish even if it doesn't give them another buck's worth of value. Worse, when the hotdog cart owners finds out that everyone is getting free money that can only be spent on their wares, they'll soon raise prices.

And no, competition won't help drive down prices very much. As long as everyone who wants a frank can get free money for it no one has an incentive to sell at less than the free money level. Well that's higher education pricing in a bun...er...nutshell.

**6) Is this a situation of “let the buyer beware“ or “let the lender beware” or “let the student beware” in terms of going to a private college?**

The buyer should beware no matter what kind of school he or she attends, and should give serious thought to whether it makes sense to go to any school at all. The root problem is that massive third-party money – especially from taxpayers – in higher education significantly decreases students' incentives to beware.

**7) Coalition for Educational Success- is this a think tank or some organization- what's the deal with these people?**

The Coalition, as far as I know, is a DC-based advocacy organization for for-profit schools. It also took the lead on exposing the changes to the GAO's “secret shopper” report.

**8) What have I neglected to ask?**

I think you got all the big stuff.