



Self-interest and subsidies: Why for-profit colleges converting to nonprofit status is less nefarious than you think

Heather Kays

November 8, 2016

It's the subsidies, stupid.

Or maybe it's the stupid subsidies.

Whichever is the case, the raging debate over for-profit colleges converting to nonprofit status is a distraction, says a libertarian scholar.

Everybody is in it to make money, according to Neal McCluskey, director of the [Center for Educational Freedom](#) at the Cato Institute, a Washington, D.C., think tank.

What one does with the money one makes is the dividing line.

“Let's be clear what ‘for-profit’ means: it means you are open about trying to bring in more than it costs to supply the service, and the surplus you make goes to owners or investors,” McCluskey told Watchdog.org.

He points out that traditional universities often bring in considerably more cash — through tuition, federal grants and loans, and earnings on endowments — than they spend on educating students. They just don't call it profit because, rather than dispersing it to owners or investors, they spend it on higher salaries, new buildings or other perks for faculty and staff.

“Self-interest is still very much involved, but the ostensibly nonprofit schools get preferred tax treatment and face less onerous regulations. Which is likely why many officially for-profit schools want to change their status: they'd get treated equally for doing the same thing as their competitors,” McCluskey says.

The Obama administration's crusade against for-profit colleges reached a fever pitch last spring when the [The New York Times](#) published a story on how for-profit institutions were looking to switch sides “primarily to avoid stepped-up government scrutiny and regulation.” The Times cited Lloyd Mayer, an associate dean and law professor at Notre Dame Law School as alleging that “the now-nonprofit colleges may be providing an impermissible private benefit to their former owners.”

That was followed up by an August [story in Inside Higher Ed](#) suggesting much the same thing: that it's attractive for schools to convert from for-profit to nonprofit status in order to "no longer face a federal requirement that at least 10 percent of their revenue come from sources other than Title IV federal student aid — such as loans and Pell Grants." Inside Higher Ed also noted that the schools could avoid tougher standards for student employment and paying off student loans by jumping from the for-profit ship.

And then there's just the way it looks.

"Going the nonprofit route would also allow them to avoid the stigma increasingly associated with the for-profit sector," opined Inside Higher Ed.

All of which raises the question — why are there different standards?

"The Obama administration has been zealous in going after for-profit colleges, and their outcomes do leave a lot to be desired," McCluskey said. "But all of higher education, regardless of sector, has poor outcomes, and has largely gotten a pass."

The current administration, he contends, has "lionized" community colleges, which have worse completion rates than two-year for-profit schools even while tending to work with "better-off students."

"Once you control for variables such as student characteristics, or that for-profits don't get big, upfront subsidies, there is no compelling evidence that they do worse than any other sector," said McCluskey.

All the for-profits want, according to McCluskey, is a level playing field.

They aren't likely to get it, but the sectors do have something in common: massive subsidization that inflates prices and distorts the market for what students want out of college.

"People probably not truly prepared for college-level work will enroll in all sectors if someone else foots much of the bill, while well-prepared students will demand all sorts of wasteful frills and services," he said.

With powerful interests involved — unions, prestigious faculty and administrators, and alumni groups populated by well-off donors — there is little chance that elephant in the room is going to be dealt with.

"So we focus on distractions, like for-profit schools, that won't ultimately fix the problem," said McCluskey.