

THE TRIBUNE

The Myth of Nonprofit Higher Ed

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March 27, 2019

If the Varsity Blues bribery and cheating scandal has done anything positive, it has been to shine some light on a basic reality: very little in higher education is truly nonprofit. It turns out some analysts — and residents — of the ivory tower have been making this point for years. But nothing elevates things in the public consciousness like rich people — especially celebrities — behaving badly.

The specifics of the scandal involve outright fraud by people outside of the ivory tower trying to get their kids into the penthouse — elite institutions including Yale and UCLA. There is no evidence of which I'm aware that the schools themselves encouraged such fraud, though some employees, seeking to enrich themselves, allegedly did. This was especially true of coaches, including a former Georgetown University tennis coach who reportedly took in \$2.7 million to put kids on athletics admissions lists.

And even if the schools did not condone their behavior, these individuals nonetheless illustrate something crucial about the whole system: just because you work at a place with a nonprofit tax designation doesn't mean you cease to be self-interested. Indeed, trying to maximize one's happiness is a very human thing to do.

Of course, all schools are populated by human beings, hence all are inclined to maximize their profit: the benefits they get versus their costs.

As the late Henry Manne, who taught at Emory University, the University of Wisconsin, George Mason University and other institutions, explains in his chapter — a reprint of this 2014 essay — in a new book I co-edited, the idea that people in organizations with nonprofit tax status do not seek profit “is a hallowed and egregiously myth.

Human nature does not change with the legal structure of the employing organization. Managers of nonprofit organizations are no less interested in maximizing personal utility than are managers of for-profit firms.”

Varsity Blues has inspired people to pay new attention to the many legal ways putatively nonprofit institutions pursue monetary gain through admissions. These include opening places to less qualified children of big donors and legacy admissions maintained with continued financial commitment in mind. And let's face it, presidential pay in the millions, and endowments in the billions, don't exactly say “we just want to break even.”

Despite a lot of clear money-seeking, as Manne notes, the way profit is manifested in putatively nonprofit colleges is often different than in for-profit ventures, where profit is largely defined as, simply, bringing in revenue exceeding costs.

Not-for-profits tend to obfuscate this because they can't deliver profits to owners or investors. So they spend all the revenue within the confines and membership of the institution and call it all "costs." But those costs are often just ways of making the lives of those in the tower more pleasant.

"Can anyone believe that light teaching loads, generous research leaves, tenure, high salaries, political correctness, and so on represent anything other than 'profits' to faculties," asks Manne.

Just consider the nature of academic work: It can be very pleasant to tackle a subject that you find of immense interest. And if the immediate, and maybe ultimate, result of one's work is likely to be much more academic than practical — e.g., the next journal article on Shakespeare— it is a huge boon to be able to earn a living doing it.

That is profit.

Add in the increasingly opulent trappings of many colleges, including waterparks, as well as other perks, and the profit can be substantial.

Sure, you won't be Jeff Bezos rich, but you also did not take Bezos risk or have the same extraordinary demand for your service. Oh, and you get that profit in part via massive taxpayer subsidies in various forms, including student aid, often direct subsidies and preferential tax treatment.

Human nature is the same no matter the tax designation of the institution. Hopefully, the biggest scandal to shake the ivory tower in quite some time will help more and more people to see that.

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