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The Assault on For-Profit Universities

Posted By [Lindsey Burke](#) On August 10, 2010 @ 1:00 pm In [Ongoing Priorities](#) | [No Comments](#)

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President Obama and Education Secretary Arne Duncan want the United States to lead the world in the percentage of people who graduate college by 2020, which will mean increasing by at least 8 million the number of students completing college over the next 10 years. President Obama noted in a speech yesterday that by "making college affordable ... we'll reach our goal of once again leading the world in college graduation rates by the end of this decade."

But new proposals for regulation the for-profit higher education industry outlined by the Department of Education could actually have the opposite effect. For-profit higher education is serving the needs of students, as evidenced by the significant increase in enrollment over the past two decades.



According to a new report by the Center for College Affordability and Productivity, since 1986 alone, [enrollment has increased nearly sixfold](#) ^[1] and has now reached nearly 1.8 million students. While traditional public universities and nonprofits have grown just 1.6 and 1.4 percent (respectively) each year, for-profit institutions have enjoyed an 8.4 percent annual growth rate. This growth rate has been achieved because for-profit universities serve a wide range of student needs, from more traditional degrees to vocational and technical schools. According to a [new report](#) ^[1]:

Traditional universities are configured as non-profit organizations whose stated mission often invokes a service of the public good. In contrast, for-profits are structured as profit-maximizing firms whose success depends of providing a valuable service to the student/customer. For-profit institutions can only be profitable if they are able to provide a service that is valuable to the student.

While there are likely bad actors in the for-profit industry, the Department of Education has proposed capping costs at any for-profit that receives federal subsidies. This would affect virtually all for-profit, private higher education institutions since nearly all of them accept students who receive federal subsidies in some form.

But what would this mean for achieving the Administration's goal of increasing the number of college graduates? For-profits have been particularly popular among those students historically underserved by the traditional college model. African-American and Hispanic students are enrolling in for-profit universities at a greater rate than in traditional universities, and female enrollment in for-profit institutions has skyrocketed in recent decades. For-profit institutions also serve non-traditional students who are often older and have to work full-time jobs outside of their academic pursuits.

But the Obama Administration argues that increased regulation is also needed in the for-profit sector because students attending these schools tend to default at higher rates than students in traditional four-year institutions. This is true: Average default rates for students attending for-profit schools stood at 11 percent in 2007, compared to just 5.9 percent at public universities. But some argue that these higher default rates are a function of serving a student population

that has been shut out by public and nonprofit institutions.

Neal McCluskey over at the Cato Institute [points out that](#) [2] in a recent Congressional hearing about the for-profit industry, Senator Tom Harkin (D-IA) stated that "GAO's findings make it disturbingly clear that abuses in for-profit recruiting are not limited to a few rogue recruiters or even a few schools with lax oversight." But findings from the GAO's investigation, released just last week, found that "results of the undercover tests and tuition comparisons cannot be projected to all for-profit colleges."

So the question becomes: Is it the *profit* in for-profit that has the Administration uneasy?

Federal subsidies for higher education have increased significantly over the past several decades. But—probably as a result of those increases—so has tuition. It has become a vicious cycle whereby the federal government increase subsidies for college, increasing students' purchasing power, in turn allowing universities to raise tuition, which increases the demand for student subsidies. For some students, the for-profit market has broken this cycle, eliminating a barrier to entry to postsecondary education.

While there are certainly bad actors—as with *any* industry—the answer isn't to expand federal control and regulation over an industry that is meeting the needs of millions of students. The answer is to increase transparency and information about what students can expect to get in return for their investment in these schools. Vedder et al. said it best in their report:

The roots of market-based education stretch as far back as classical Greece in the fifth century B.C., when proprietary schools and traveling teachers for hire ... provided instruction to students willing to pay for their services. The Greek citizenry's growing demand for educational services combined with the freedom of educators to establish private for-profit schools led to the emergence of a nimble educational system. ... In response to the needs of the students and their families, educators taught the subjects students wanted to learn.

One-size-fits-all approaches don't work in education, and they certainly don't work in the higher education industry. If the Administration really wants the United States to lead to world in college graduates, all options should be allowed to flourish to meet the needs of students.

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URLs in this post:

[1] enrollment has increased nearly sixfold:

http://www.centerforcollegeaffordability.org/uploads/ForProfit_HigherEd.pdf

[2] points out that: <http://www.cato-at-liberty.org/2010/08/06/what-part-of-nonrepresentative-dont-profit-haters-get/>

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