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THE UNACKNOWLEDGED VALUE OF FOR-PROFIT EDUCATION

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EXECUTIVE SUMMARY

For-profit education is the fastest-growing sector of the higher-education industry. However, politicians and journalists have highlighted trends that they say should make students think twice before attending for-profit colleges. These include:

- Poor graduation rates, as only 22 percent of students at for-profits completed college in six years, compared with 65 percent of students at nonprofit private schools and 55 percent of students at nonprofit public schools;
- Higher loan-default rates, as 25 percent of students at for-profits default on their loans—the figures for their peers at nonprofit private and public schools are 7.6 and 10.8 percent, respectively;
- Higher likelihood of unemployment for alumni of for-profit colleges.

However, policymakers should not overlook the many positive aspects of for-profit colleges. For-profits are notable for educating students who are underrepresented at traditional campuses. For instance:

- African-Americans and Hispanics constitute 22 and 15 percent of students in the for-profit sector, respectively, though they make up only 13 and 11.5 percent of all students;

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- 75 percent of students attending for-profits are financially independent;

- 54 percent of dependent students attending for-profits have incomes below $40,000;

- 65 percent of students attending for-profits are aged 25 and older, compared with much smaller percentages at four-year public colleges and two-year colleges.

Because for-profit colleges are not bound to the often-inflexible agendas of tenured faculty, alumni, or trustees, they can more easily adapt course offerings to current labor demand. As a measure of their success, when for-profits are compared with traditional community colleges (their closest market competitors), they often perform better: one estimation model shows that students enrolled in certificate programs are about 9 percent more likely to obtain certificates, and 4 percent are more likely to obtain associate's degrees than students attending community colleges.

The federal government should seek to preserve the good aspects of for-profit colleges while minimizing the bad ones. To that end, policymakers should change the federal student-loan program so that substandard institutions are hard-pressed to stay in business. To ensure that its investment in higher education is worthwhile, the government should apply any such regulation to all sectors of the higher-ed industry, be it for-profit, nonprofit, public, or private.

INTRODUCTION

The growth of student-loan debt has raised a vexing question: Is a college degree still a good investment? No segment of American higher education has faced greater scrutiny than for-profit colleges and universities.

For-profits differ from traditional institutions in important respects. They are accountable chiefly to shareholders, who expect a return on their investment; their stocks are usually traded publicly; and they face no restrictions in setting executive pay.[1] In addition, their admissions standards generally are much lower than those of comparable nonprofit schools. While for-profits only accept students with a high school diploma or equivalent, they are otherwise nonselective.[2] The average acceptance rate for for-profits in 2007–08 was slightly above 74 percent, the highest of any sector and roughly 5 percentage points higher than public universities.[3] Most important, for-profits' academic goals are distinct: they explicitly seek to equip students with vocational skills. To that end, they emphasize technical training over the liberal arts.[4]

For-profit business schools flourished across the United States in the nineteenth century. Though the industry faced serious competition from nonprofit colleges and universities in the early twentieth century, it has recently seen substantial and sustained growth, far outpacing that of traditional institutions.[5] Scholars have estimated that the entire for-profit industry comprises 7,549 institutions and educates 2.47 million students.[6] From 1998 to 2008, for-profit enrollment grew 225 percent, and postsecondary enrollment as a whole increased only 31 percent.[7] Additionally, the share of all students attending for-profits has increased: from 2000 to 2009, the percentage of all students attending for-profit colleges grew 6 percent.[8] Not surprisingly, for-profits account for a significant percentage of the degrees granted in the United States: in 2008–09, they produced 18 percent of the country's associate's degrees, 5 percent of its bachelor's degrees, and 10 percent of its master's degrees.[9]

The most promising aspect of for-profits is their ability to accommodate those students who, for whatever reason, cannot thrive in a traditional institution. The student-body makeup at for-profits, report Harvard scholars David Deming, Claudia Goldin, and Lawrence Katz, underscores their success in attracting underrepresented demographics: "Although African Americans account for 13 percent of all students in higher education, they are 22 percent of those in the for-profit sector. Hispanics are 15 percent of those in the for-profit sector yet 11.5 percent of all students. Women are 65 percent of those in the for-profit sector. For-profit students are older, about 65 percent are 25

years and older, whereas just 31 percent of those at four-year public colleges are and 40 percent of those at two-year colleges are."[10]

For-profits also attract students from socioeconomic groups typically not found in great numbers at traditional colleges and universities. Some 75 percent of students attending for-profits are financially independent of their parents, meaning that they are 24 or older, married, responsible for dependents, veterans, or "wards of the court."[11] In contrast, only 36 percent of students at public two-year colleges in 2007–08 were dependent. The figures are lower for other types of institutions.[12]

The dependent students at for-profits are generally poorer than those attending any other type of institutions: whereas in 2007–08, some 54 percent of dependent students at for-profits had incomes below $40,000, only 35 percent of students enrolled in public nonprofit two-year programs did. The same figures for students enrolled in public four-year programs and private nonprofit programs were 25 percent and 20 percent, respectively.[13]

For-profit colleges attract nontraditional students because those colleges can accommodate the students' unique needs. Many students cite the no-frills nature of for-profits in explaining their decision to attend.[14] Given that for-profit students are often both poorer and more financially independent than their peers at traditional universities, they often must work and care for their families while pursuing their degrees. For-profits serve these students well because students can enroll in as many courses as their other commitments will allow.[15] For-profits' academic offerings also appeal to these students: they do not offer liberal-arts programs but rather teach technical skills for specific fields—and thus can quickly train students whose time is more limited because of work and family commitments.[16]

The technical training that for-profits offer underscores the industry's greatest strength. For-profits can easily change their program offerings based on market signals; accordingly, they provide training in fields in which employer demand for skills is increasing. Indeed, for-profits recognized burgeoning opportunities in "phlebotomy, x-ray and ultrasound technicians, practical nursing and even registered nursing" and increased their offerings of associate's degrees and certificates in these fields much more than other institutions did.[17]

For-profits are more successful than community colleges at retaining students who enroll in shorter programs: one estimation model shows that for-profit students are 9 percent more likely to obtain certificates and 4 percent more likely to obtain associate's degrees than students who begin these programs at community colleges. Furthermore, they are more likely to stay in such programs and less likely to take makeup classes after their first year.[18] This suggests that though four-year for-profit programs do not offer substantial dividends to their graduates, students who attend for-profit colleges for shorter periods without interruption are relatively successful.

RECENT PROBLEMS AND SANCTIONS

Still, controversy persists. Many argue that for-profit colleges care less about student outcomes than they do about the funds available through federally backed student loans—and these concerns are not wholly without merit.

Some reports show that many for-profit colleges misrepresent alumni employment figures to potential students while providing low-quality academic offerings. Criticism of the industry is growing. *New York Times* editorials have depicted for-profits as mere "profit centers"[19] and "generally a bad deal for taxpayers and for the underprivileged students they often recruit through deceptive means."[20] Senator Tom Harkin (D-Iowa), chair of the Senate Health, Education, Labor and Pensions Committee, lambasted the industry as rife with fraud and "manipulation."[21]

Like those at nonprofit institutions, students at for-profit colleges are typically eligible for aid—gener-

ally loans—through Title IV of the federal Higher Education Act (HEA).[22] That aid, in turn, is a principal source of income for virtually all postsecondary schools. However, students at for-profit colleges default on those loans at a much higher rate than students in either public or private nonprofit institutions.[23]

In 2008, 25 percent of students at for-profit colleges defaulted on their loans within three years, compared with a rate of 7.6 percent for private institutions and 10.8 percent for public institutions.[24] These default rates increased from 2006 to 2011.[25] Moreover, students at for-profit colleges default at rates disproportionate to their numbers: though they constitute just 12 percent of all those in the higher-education industry, they make up half of those who cannot pay back their loans.[26]

For-profits' graduation rates are also worse than those of their nonprofit peers'. Completion of bachelor's degrees is significantly lower at for-profits than at other institutions: though in 2002, 57 percent of all bachelor's students obtained their degrees within six years, only 22 percent of students at for-profits did, compared with 65 percent at nonprofit private schools and 55 percent at nonprofit public schools.[27] Moreover, the disparity between white and minority students' completion rates is larger in the for-profit sector than in any other.[28] Finally, for-profit students have a greater likelihood of being unemployed than their peers.[29]

In response to these troubling figures, the U.S. Department of Education in 2011 promised to hold for-profits to the letter of the so-called gainful employment language in the HEA. Henceforth, federal aid to students attending a particular institution would be contingent upon its student-loan-repayment rates. In the department's view, for-profit programs led to "gainful employment" if at least 35 percent of students were paying back their loans and if the annual sum repaid was not above 30 percent of students' discretionary income, or 12 percent of total earnings.[30] If institutions did not meet these standards for three years within a four-year period, they would no longer receive federal funding.[31] Moreover, those institutions that the department believed were providing inferior opportunities would then need to request permission from the department to create new "educational programs."[32] Though the D.C. District Court invalidated the loan-repayment measure on the grounds that the desired percentage of students repaying their loans was "arbitrary," the Department of Education pledged to find more acceptable figures.[33] At that time (June 2012), however, only 5 percent of programs at for-profits would not have met the "gainful employment" standards.[34]

GOING FORWARD

How should policymakers approach for-profit colleges? Any proposal should seek to encourage the positive aspects of for-profit colleges—dynamism and the appeal to nontraditional students—while forthrightly addressing their more problematic elements.

Certainly, the federal government should stop subsidizing substandard institutions. As noted above, for-profit colleges rely on federal funding for their continued existence. Strip that away from institutions that fail to produce measurable positive results, and the lower-quality colleges would be hard-pressed to stay in business.[35]

Still, many students who depend on federal aid to support their education would no longer have an opportunity to earn postsecondary degrees. A more gradual approach, with the Department of Education reducing the amount of Title IV loans that it grants by 10 percent each year, might be better. This approach would give families enough time to carefully reconsider their educational options. Alternatively, the Department of Education could cap the amount in Title IV loans that it provides to for-profit colleges each year, thus forcing administrators to reduce unnecessary spending. Doing so would signal that federal support is not unlimited and might encourage for-profits to cut back on nonessential spending.

However, even this gradual approach would put for-profits at a competitive disadvantage: it would push students toward nonprofit institutions, where they can expect more abundant aid. This raises an important point. Thus far, the federal government has targeted for-profits specifically. However, if the Department of Education is concerned about loan repayment, completion rates, and employment statistics, it should also scrutinize traditional institutions with regard to these outcomes. It should not matter whether a student is delinquent in paying back loans from a for-profit, nonprofit, or public college. The government subsidizes students at all three types of institutions and has an interest in ensuring that its investments are used well everywhere.

The federal government can make its commitment to worthwhile higher education clear by ensuring that any regulation of for-profits, or alteration to the student-loan system, is applied to nonprofit colleges and universities as well. This would avoid raising suspicions that new federal measures aimed solely at for-profits are motivated by politics rather than concern for student success. The goal should be an approach that treats for-profit and nonprofit colleges identically, so as to make all consumers in the higher-education market more cautious about their investments. That would make it easier for students to choose the programs that best suit their circumstances and that provide the skills that they need to prosper.

ENDNOTES

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