February 18, 2011

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Posted: February 17, 2011 12:00 PM

The Toxic Rhetoric of For-Profit College Companies

For-profit college companies are indignant. They are outraged that the U.S. Department of Education is developing standards to define what it means to "prepare students for gainful employment in a recognized occupation," the key term of a long-standing prerequisite enabling those companies to qualify for federal Title IV student financial aid, which includes Pell Grants and Stafford loans.

And the for-profits are spending millions in a marketing campaign to let their indignation be heard, aided by a very diverse team of well-compensated, newfound friends -- all of it to distract from the dubious quality of some of the academic programs they offer.

Interestingly, their anti-regulation argument is not the typical claim that regulations hamper innovation and increase transaction costs. No -- they tell us their real concern is that the proposed gainful employment regulations represent an indiscriminate assault on the educational "choices" and "opportunities" available to non-traditional and low-income students.

Say what?

In fact, the Education Department's proposed regulations are actually just a timid attempt at accountability, ensuring that the students' and taxpayers' investment actually supports education leading to job earnings that are reasonably well-matched to the cost of that education.

Currently, for-profit colleges need only check a box certifying that they prepare their students for

gainful employment. That's right -- enforcement relies on the honor system. And the honor system has worked very well for the for-profits. During the past decade, their enrollments have grown by 236 percent. In one year, the sector captured over $24 billion in federal subsidies. But that honor system has not worked so well for students: The few who actually graduate from a for-profit institution with a bachelor's degree have a median debt four times higher than that of bachelor's degree holders from public colleges.

The for-profits also rake in a high level of federal dollars relative to the number of students they serve. While they enroll only 12 percent of the nation's college students, they consume 24 percent of all federal student loan dollars. And their proportion of loan defaults is even higher: for-profits produce 43 percent of all defaults on federal loans.

So how draconian are the proposed "gainful employment" regulations?

Not very, as it turns out. To be declared ineligible to receive federal student aid, programs must produce student debt burdens above 12 percent of students' total income and above 30 percent of their discretionary income, *and* they must have loan repayment rates below 35 percent. Yes, the government is willing to live with 65 percent of loans not being repaid by students who have enrolled in very expensive academic programs. What about the programs that are just shy of meeting this toxicity test? In this case, the institutions would simply be required to limit enrollment growth until they get their risks under control.

Clearly, the proposed standards do not threaten legitimate choice and opportunity. What they may do, however, is to stop legitimizing -- through the availability of federal subsidies - academic "choices" that are so toxic they only constitute an *illusion* of "opportunity."

Unless the Education Department gives in to the toxic rhetoric of the for-profits and debilitates the already timid regulations.

It is important for the Education Department to remember that oftentimes when corporations and trade organizations spend millions articulating their concern for the public, it is a strategy to reduce the risk of regulation by selling the idea that they can self-regulate. British Petroleum presents itself as aiming "for no accidents, no harm to people, and no damage to the environment." Halliburton claims as a core value the aim "to be welcomed as a good corporate neighbor in our communities... to validate our progress through transparency and reporting." McDonald's touts commitment to "Nutrition and Well Being."

So it's no surprise that the Association of Private Sector Colleges and Universities -- the Washington group representing the for-profit industry -- stresses a "passionate commitment to our members and the students they serve" and a "dedication to integrity, accountability and excellence in career and professional higher education."

For-profit colleges that earn their profits through innovation in educational delivery, rather than through under-investment in student success, have nothing to worry about. These companies should welcome the proposed regulations, since removing the worst actors will protect the sector's reputation and provide an opportunity for market growth.

The last time a powerful corporate sector gained rapid growth by aggressively targeting the underserved with high-risk products -- benefiting from lax government regulations and a lack of appetite for enforcement -- the result was the subprime mortgage crisis. The banks' arguments were eerily similar to those of the for-profit colleges: Beware of unintended consequences that will limit "choice and opportunity."

The truth is that the bankers were asking us to protect toxic assets -- and now the for-profit colleges are asking us to do the same.

Inaction is not an option. We have to rein in those that abuse our social investment and prey on our underserved population.

Choice and opportunity -- as concepts, as values, as concrete manifestations of the American Dream -- deserve more respect.