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Examining For-Profits and Cost Structure

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Is the for-profit sector of higher education worth preserving from the current onslaught of regulatory challenges coming from the Obama administration? In the first two parts of this series, I described those challenges and outlined a reason why we should resist the urge to drive the for-profit colleges and universities out of business. My answer is that we need them not for what they are now, but for what they are likely to become as the old models of not-for-profit higher education falter. In this third of four installments, I contrast the difficulty that the not-for-profit sector has with containing costs to the streamlined approach of the for-profit institutions.

(1) Not-for-profit education's cost problem

The "bubble" in higher education—the risk that the public will in significant numbers draw back from college because it perceives that a college education is likely not worth the investment of time and money—is a prognosis of tough times ahead for all of higher education. If the bubble bursts, however, it will be the not-for-profit sector that is hit hardest.

There are several reasons for this, including the likelihood that public disaffection with mainstream higher education will mean an unwillingness on the part of legislatures and taxpayers to bail out the industry. The rhetoric of higher-education lobbying about the personal advantages of getting a college degree won't avail. Why should the public pay for a private good, especially one that increasingly looks self-indulgent and impractical for many students? Nor will the rhetoric that emphasizes that higher education spending promotes "national competitiveness" (or *mutatis mutandis*, prosperity in individual states) carry the political debate. Higher education promotes national or regional competitiveness when students learn internationally competitive skills, but not when they graduate in large numbers marginally educated and maladapted to jobs requiring secure knowledge, self-discipline, and intellectual adroitness. In higher education we do a good job of extolling to each other the importance of our institution, while failing to notice that fewer and fewer people outside our institutions put much stock in these conceits.

The emptiness of the rationalizations, however, is only the foyer of the problem. It leads to a great room packed to the rafters with other difficulties. Most of them involve long-term debt and on-going expenses that can't easily be reduced. All the excessive infrastructure of dorms, athletic complexes, and palatial classroom buildings; all the florid overgrowth of supernumerary administrators (diversity provosts, vice presidents of student success, assistant deans of institutional effectiveness); all the ideology-driven sacred cow academic programs (e.g. women's studies); all the thinly disguised remedial programs necessitated by the admission of underqualified students; all the big-league sports programs and the huge component costs of keeping those programs Title IX compliant and NCAA-approved; all the regulatory burdens for research labs; all the lawyers needed to comply with regulations and fend off suits from aggrieved students and employees; all the acres of landscaped campus needed to maintain that collegiate image—all-in-all, the whole lumbering enterprise of the modern college and university is colossally expensive and probably beyond the reach of sensible budgetary repair.

An outsider might wonder at that beyond-the-reach-of-repair observation. What would be so hard about eliminating surplus administrators and closing white-elephant programs? But the reality is that it is very hard indeed. Colleges are ferociously attached to these component costs, each of which has its own powerful constituency. Colleges and universities, we now see, would rather jettison parts of their core academic programs, such as foreign-language instruction, than take on a single one of these massive cost-drivers.

It isn't hard to see why. The nonprofits built themselves by creating programs calculated to win the assent of interest groups; and then found they were in competition with other colleges and universities pursuing the same strategy. An arms race ensued. The arms had to be paid for, of course, and that meant jacking up the tuition year after year until it was a high multiple of the 20-year rate of inflation. And the whole strategy was made possible by the combination of direct state support and the federally guaranteed student-loan program. The latter meant that colleges could thrive on borrowed money they would never have to repay.

The not-for-profit sector amounts to an ideology-amenity-sports-research-remediation-and-regulation-and-student-loan complex where the underlying tensions among the beneficiaries are kept in check by the need to keep the whole thing afloat.

The economics of nonprofit American higher education is a very peculiar thing. It is a system of runaway expenses fueled by 50-some years of relatively easy access to cash and credit, favorable demographics, political support, and a consumer psychology that led large numbers of people to believe that student loans were virtually a no-lose proposition. The student-debt maneuver, however, works only so

long as students believe the long-term benefits make it reasonable to borrow now and pay later. If this piece of the model breaks down, everything else crashes.

(2) The streamlined for-profit sector

Included in that crash, presumably, will be those for-profit institutions that also built themselves on the assumption that federal loans to students would flow into their coffers. But there is this difference: The for-profit sector carries only a small fraction of the locked-in-place expenses I cataloged above. That gives them a freedom to change and adapt that most colleges and universities in the not-for-profit sector lack. They do things in frank disregard for the pieties and preferences of the higher-ed establishment. The University of Phoenix, for example, pared its curriculum down to work that can be completed in six- to eight-week terms. It is not alone in offering students academic credit for "life experience."

When I judge this by the ideal standards of liberal education, I deplore many of the results: A good portion of the for-profit sector consists of thinned-out degree programs that offer very little of the intellectual and cultural context that ought to be the matrix of higher learning. But when I judge this situation by contrasting it to the actual quality of liberal education in much of mainstream American higher education, the differences don't seem especially large. The nonprofit sector has been busy thinning out the intellectual and cultural contexts as well. The main difference is that the non-profit sector pretends otherwise. It tirelessly enunciates its commitment to things like "critical thinking," civic literacy, and global citizenship, while delivering programs of minimal rigor and cogency. Only a few of the nonprofits care enough about that civilizing context to give it more than gestural support. Phoenix and its cousins have just dropped the pretenses. If a large number of Americans want a stripped-down credentialing service in lieu of a real education, the for-profit sector will give that market what it demands.

That is, however, a sour way to put it. Alternatively, we could say that the for-profit sector has emerged as robustly independent of the education establishment, its cliches, and rationalizations. And it is also, by contrast with the non-profit sector, insouciant towards the ideological preoccupations of the Obama Department of Education. The attempt to extinguish the for-profit sector through regulatory smothering was launched in the name of correcting abuses. The abuses are very real and need to be corrected but they are not the whole story.

Serving the Underserved?

In part 2 of this series I quoted Barmak Nassirian, Associate Executive Director of the American Association of Collegiate Registrars and Admissions Officers, who warns about for-profit degree mills, the debasing of academic standards, and the counterfeiting of credentials. I take his warnings seriously, but I also see some power in the defense that the for-profits have mounted.

One version of that defense comes from Diane Auer Jones, former assistant secretary for postsecondary education, and recently appointed vice president of external and regulatory affairs at Career Education Corporation. CEC is an international for-profit company that has some 90 campuses and 116,000 students. Much of its curriculum is vocational, and much of its business model, like other for-profits, depends on encouraging its students to take out Title IV student loans. But Jones sees that practice not as "a way to exploit the federal student aid program so much as we are willing to provide second chances to a group of students who traditional universities do not want to serve." These are students who often have not done well academically in secondary school and who aren't much interested in liberal education. But they are educable, provided someone is willing to teach them in the right way.

Jones explains the industry's heavy reliance on federally guaranteed student loans as a matter of the life histories and circumstances of these students:

> *Our students tend to be independent students, so their parents aren't paying or saving or borrowing on their behalf. Without parental support, most people do rely on Title IV funds to go to school.*

And she contrasts the funds from student loans to all the other streams of taxpayer monies that make their way to the nonprofits:

> *In addition, our schools do not enjoy the tremendous state and federal subsidies and tax advantages that defray some of the costs at non-profits. These subsidies cost the taxpayer more than $9,000 per student per year at community colleges (for general-studies programs and as much as four times that amount for career and technology programs) and at a minimum $12,000 per year at four-year schools.*
>
> *If we looked at all of the money that goes to all institutions, it would become clear that the taxpayer spends far less for a student who goes to a for-profit college than for one who goes to a nonprofit college.*

Jones admits there is a problem with the loans, but not the one the critics have focused on—the eagerness of the for-profit schools to take the money and leave the students holding the debt. Rather, she says, the problem is that Congress has allowed student loans to be spent on all sorts of personal expenses other than tuition and fees, and impoverished students are tempted to use their access to these funds to cover other living expenses:

> *Our schools have asked congress for the authority to limit student borrowing to just tuition and fees and not everything under the sun since much of the borrowing our students do is not related to educational expenses. We know they borrow too much and we want to stop it. [...] But Congress will not give us that authority. Low-income students don't have the support of parents who pay for their health insurance, give them access to a family car, buy their clothing and incidentals, or even send them the occasional care package or $20 bill to help out. Our students frequently borrow to buy cars, pay for their cell phones, put their own kids into private school, and even take vacations. We try to tell them not to, but we are*

prevented by law from disallowing them to borrow whatever amount the Department makes available to them.

Which is to say that the for-profit sector, though streamlined in comparison to the non-profit sector, is very clearly an instrument of public policy. The question is not whether it should be regulated, but how and to what ends. If the for-profits were willing to forgo government monies and operate solely as private enterprise it would be a different story.

Jones' account of the for-profits is starkly in contrast to Nassirian's. Where he sees degree mills, she sees second-chance vocational opportunities. Where he sees counterfeit credentials, she sees practical training. It is not hard to imagine that both are partly right, and that the situation is maddeningly complicated because of the oceans of state and federal money that are spent with so little regard for the actual benefits to students no matter what kind of institution they attend.

What's Next?

Jones is, of course, not alone in extolling the idea that the for-profit sector colleges serve a public good. Her refutation of the image of them as piratical exploiters of students and efficient grabbers of federal dollars has been put forward forcefully by the industry's lobbyists, and it bears real consideration. But the task I set for myself in this series of articles is to judge whether those of us who focus on liberal education, scholarship, and high standards of intellectual inquiry have any reason to be concerned about what happens to the for-profit sector. The merits of serving students who have no interest in the liberal arts don't really bear on that question.

We are, however, closer to an answer. The success of for-profit colleges in escaping the cost structure of the not-for-profits points to a way these institutions can potentially serve liberal learning. And Jones suggests another consideration: that the for-profit sector is creating a new institutional division of labor between market-oriented vocational training and liberal arts education. That division is a very old idea but one that has been out of fashion for half a century in the United States as "multiversity," mass higher education, and community colleges sought ways to blend a liberal-arts curriculum with credentialing for the marketplace. We may be at the point where that effort to blend the two has begun to unravel. These are threads I will pull together in the fourth and last part of this series.

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