WEATHERING THE POLITICAL STORM

History repeats itself in the for-profit sector

By Daniel L. Bennett, The Center for College Affordability & Productivity

The latest report from the Department of Education estimates that enrollment at for-profit institutions topped 3 million students and that the sector's market share may have reached double digits in 2008-09.[1] This is a remarkable milestone for an industry that only enrolled 300,000 students and held around 2 percent market share a little more than two decades ago.[2]

Growth in the sector is a direct result of the institution's adroit ability to serve segments of the population – including working adults, minorities and first-generation students – who historically have been ignored by the traditional postsecondary education system. Primarily as a result of generous federal financial aid policy, these segments have now become empowered consumers who by and large choose to seek career-focused education at institutions that are mostly privately owned and operate for a profit. Such institutions are able to earn a profit by employing an efficient customer-service-focused business model. They've also adopted practices such as offering courses at convenient times and locations that have made them attractive to the segments of the market that they serve. Meanwhile, traditional higher education merely offers lip service to meeting the needs of such students, as it largely continues to operate in the same manner that it has for generations.

Though there are instances of fraud and abuse in the for-profit sector that need eradicated, the private market is by and large serving a useful societal purpose by expanding higher education capacity to serve the nontraditional student population at a time when state governments are strapped for cash and the Obama administration has called for more Americans to attend college. It is also providing much-needed competition and innovation in an otherwise anachronistic and complacent system of higher education. Yet, the Obama administration has unleashed a furious attack on the for-profit sector in an attempt to impose strict new regulations that will significantly hamper the ability of institutions operated for a profit to compete fairly with highly subsidized and tax-advantaged public colleges – whose regulations also happen to be less stringent.

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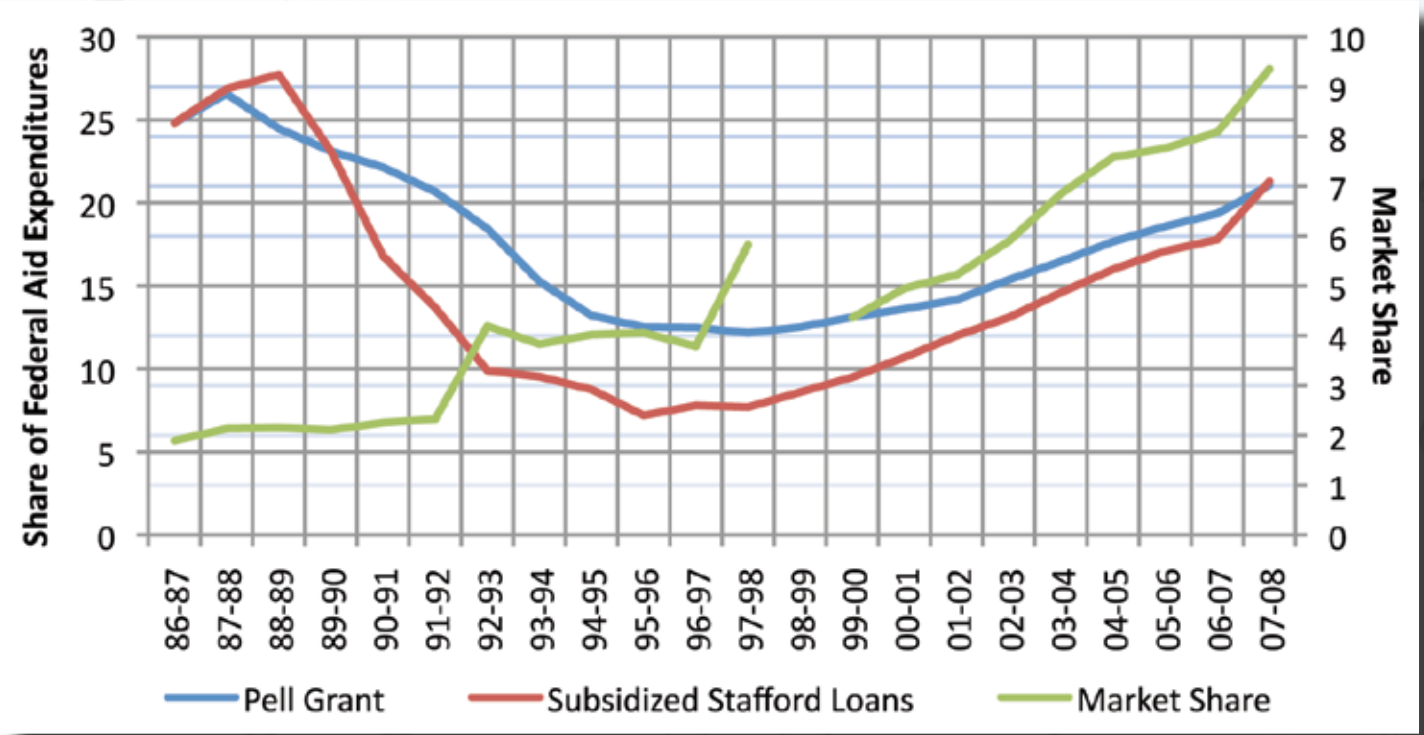
The proposals the administration has put forth include a few changes that are in the best interest of the public, such as enhanced information reporting requirements and tougher rules for student loan defaults, but by and large, the set of reforms under consideration are superfluous and overreaching. The administration wants to bar the transfer of accreditation status through acquisition, restrict the right of employers to offer incentive-based compensation, control how much of an institution's revenue can be derived from federal aid programs and how much can be spent on marketing, and of course, inflict the highly controversial gainful employment metric that would impose a severely flawed and potentially lethal debt-to-earnings ratio on institutions offering career-oriented programs.

I strongly suspect that the current attack on for-profit institutions is primarily motivated by the success of the sector at capturing federal financial aid dollars and returning a profit to their owners. According to data reported by College Board, the sector managed to attract more than 20 percent of all Pell Grant and Subsidized Stafford Loan dollars in 2007-08, despite enrolling less than 10 percent of all students. This is not the first time that success in capturing federal aid money has resulted in severe political ramifications for the sector. In the late 1980s, the for-profit

Figure 1: Share of Federal Aid Expenditures Earned by For-Profit Sector by Program, and Market Share of For-Profit Sector; 1986-87 to 2007-08[3]



Source: College Board, U.S. Department of Education, NCES, IPEDS

sector actually brought in a larger share of total Pell Grant and Subsidized Stafford Loan dollars than it does today, while having a much lower market share. Figure 1 shows the share of federal Pell Grant and Stafford Loan dollars received by the for-profit sector and its market share since 1986-87. As can be seen, the portion of federal aid program expenditures winding up at for-profit institutions diminished in the late 1980s and early 1990s before resuming growth again in the latter part of the '90s. Meanwhile, the sector's market share continued to grow throughout the first half of the period despite a decline in federal aid dollars, and has grown at a faster rate in the latter part, along with its share of aid dollars captured.

The precipitous decline in federal aid dollars received by the for-profit sector can be attributed to a hostile political environment in the mid-to late-1980s. At the time, the federal government embarked on a crusade against the for-profit sector that is remarkably similar to what we are experiencing today. Reports were issued by various federal agencies, including the GAO and Department of Education, and congressional hearings were held in the latter part of the 1980s to address the supposedly weak "regulatory structure for the for-profit sector" that was "unable to address the significant problems endemic" to institutions in the sector. The problems at the time were related to federal aid such as the awarding of aid to ineligible students, low completion and high loan default rates, as well as instances of questionable recruiting and admission practices, and the government devised new regulations intended to solve these problems.

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The Omnibus Budget Reconciliation Act of 1990 introduced a new rule that would terminate "institutions with unacceptably high default rates from participation in the federal loan program." A few years later in the 1992 Higher Education Act, new rules aimed at the sector were introduced, including limits on the amount of revenue that could be earned from federal financial aid, restrictions on distance education and the establishment of branch

campuses, a ban on incentive compensation, and a failed attempt to create state-based agencies to further regulate the sector. The cumulative effects of the new regulatory rules on the sector were significant, as many schools closed up shop and the sector's share of federal aid dollars dropped precipitously in the aftermath. Yet, the sector remained resilient and has resumed its earlier growth. The Obama administration and its allies in Congress hope to pick up where their predecessors left off in disturbing the for-profit sector's success with their current proposals to increase regulation of the industry. The sorts of "reforms" under consideration are in line with the administration's other economic policies that intend to put the central government in a position of controlling of an ever-growing portion the economy's resources.

Regardless of the severity of the new regulatory structure of the industry, I believe that the for-profit sector will adapt to the new rules and continue to establish itself as an important part of the higher education system in this country. It was able to do so after a major attempt on its life in the late 1980s and early 1990s, and it will likely do so again. In addition to clearing up instances of fraud and abuse, one lesson that the for-profit sector must learn from this repeat of history is to decrease its reliance on federal taxpayer's money. After all, being the recipient of government money rarely comes without strings attached, and as recent history reveals, often leads to political condemnation. The problem is that it is extremely difficult to compete with highly subsidized and politically preferred institutions. ■

[1] *U.S. Department of Education, National Center for Education Statistics, "Postsecondary Institutions and Price of Attendance in the United States: Fall 2009, Degrees and Other Awards Conferred: 2008-09, and 12-Month Enrollment: 2008-09,"* First Look, *August 2010.*

[2] *Bennett, Lucchesi and Vedder. "For-Profit Higher Education: Growth, Innovation and Regulation," The Center for College Affordability and Productivity, July 2010.*

[3] *Enrollment data was not available for 1999. This is reflected in the discontinuity of the market share line.*

[4] *Kevin Kinser,* From Main Street to Wall Street: The Transformation of For-Profit Higher Education *(Wiley, 2006).*

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