The Book of [for] Profits

BY **BRIAN ROSENBERG**

Only yesterday, it seems, the experts— those defined by Mark Twain as "ordinary fellow[s] from another town"—were predicting that innovative, agile, and entrepreneurial for-profit colleges would radically disrupt the business of higher education.

Economist Richard Vedder coauthored a 2010 study in which he concluded that "The track record of for-profit education is long enough at this point that if the industry were providing a product of little value, the customers would be aware of this and simply go away. They have not. Demand at forprofits is as strong as ever. If demand for a product is strong, the product must be providing something of value for the customer."[1] Indeed.

Journalist Anya Kamenetz, who is fond of words like *edupunks* and *edupreneurs*, championed for-profits before eventually conceding that she "may have been guilty in the past of bending over backwards to be fair to the sector, perhaps out of my own contrarian streak."[2] She continues to thrive in her career as a higher education expert, which suggests that when I provided all those incorrect answers on my organic chemistry exams, I should have explained to my professor that I was merely indulging my "contrarian streak."

Futurists like Vedder and Kamenetz were right, in a perverse way. For-profits have indeed been disruptive: not by driving innovation and cost reduction, but by dramatically increasing the cumulative amount of student debt, lowering the average rate at which students graduate, and prompting the federal government to more intrusively regulate higher education. What they have disrupted most frequently are the lives of the people whom they enticed to enroll. Only 22 percent of full-time bachelor's degree candidates at forprofit colleges graduate within six years, and students at these institutions make up 11 percent of federal loan borrowers but 50 percent of defaulters.[3]

In recent years, about the only thing that has been increasing at for-profits is the number of lawsuits and federal investigations. Enrollments and share prices have been plummeting. Recently Corinthian Colleges, one of the larger players in this market, declared bankruptcy and closed its doors, a move that affected more than 16,000 students and employees. The giant Kaplan, Inc. just closed a campus in New Hampshire and announced declining profits due to declining enrollments. The largest player of all, the University of Phoenix, has been losing students, employees, and campuses at what CNN calls a "breathtaking pace,"[4] and is reportedly under investigation by the Federal Trade Commission.

What are the lessons that can be learned from this—so far—unhappy narrative?

Educating students is hard work. It is not a good thing that high-quality education tends to be high-cost education, but there are reasons for this far more consequential than the climbing walls and other amenities that critics of colleges so love to mention. Outcomes are best when well-trained, appropriately compensated faculty and staff work closely with students. This is expensive, and there are few shortcuts.

Quality and value matter. About this Vedder was right, though he vastly overestimated the quality and value of the for-profits' product. No enterprise, however well capitalized and well publicized, can long thrive by offering a service or product of little value and low quality at a high cost.

Success in college is highly dependent upon preparation for college. One of the lures of the for-profits is the promise of a college education for populations that do not traditionally attend college. This is an admirable goal, but for that goal to be realized, the quality of the service offered has to be exceptionally high. Students who are less prepared for college typically require more rather than less attention if they are to succeed. This is precisely what the for-profits have not provided. It is also unrealistic to expect a dramatic increase in the number of college-educated Americans without addressing the weaknesses and stark inequities in our K through 12 and early childhood education systems.

On-line education, in its current form, is *least* effective for those who *most* need it. On-line learning environments typically provide less structure and responsiveness than do traditional classroom settings. This can often work well with traditional, high-achieving college students. It is less successful with nontraditional consumers—precisely the audience that for-profits purportedly serve.

The free market and essential public goods do not easily coexist. Some people seem surprised that for-profits devote so large a portion of their revenues to compensating executives and shareholders rather than to educating students. They should not be surprised. While there are some for-profit corporations that include social responsibility among their highest priorities, for most the highest priority is to generate profit (thus the term *for-profit*). I am not critical of the notion that for-profit entities should make a profit, but I am skeptical of the extent to which this is consistent with delivering the best possible education (or, for that matter, health care).

We need to educate more students at a lower cost in the United States, and it may yet be the case that a thriving for-profit sector will help us achieve this goal. But we are not there yet, and we will not get there if we ignore the painful lessons of the past decade.

1. Daniel L. Bennett, Adam R. Luc chesi, and Richard K. Vedder. For-Profit Education: Growth, Innovation and Regulation, Center for College Affordability and Productivity, July 2010, 54.

2. “Are For-Profit Colleges Peddling Subprime Education?” Huffington Post, 27 June 2010.

3. www.attn.com/stories/118/graduation-rate-profit-colleges-shocking

4. http://money.cnn.com/2015/06/30/investing/university-of-phoenix-lays-off-900

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