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To Get Value From For-Profit Colleges, Create the Right Incentives

I have spent nearly my entire career working to expand access to quality higher education to more Americans. I would like nothing more than to tap the incredible power of the market to address the nation's education challenges. But without safeguards, it will go wrong, again, in a big way.

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At the beginning of the Obama Administration, I led the U.S. Department of Education's efforts to protect consumers from predatory practices by colleges. The for-profit companies that operate colleges in particular took umbrage and have been fighting in court and in Congress ever since. On Thursday I was able to offer my views at an Education Department [public hearing](#). Below are some excerpts; my full written comments can be found [here](#).

Almost everything we see, wear and use in our everyday lives was developed and produced as a result of investors seeking a profit. The incredibly smart phone in our pockets emerged not from any government directive but from competition to get us to spend money. In the process, these smartphones made other products nearly obsolete — they serve as dictionary, encyclopedia, map, calculator, camera, and a Scrabble board. Adam Smith called competitive markets “the invisible hand” because, when they work right, they almost magically steer toward addressing society's needs, not because the providers are benevolent but because they want a profit. It happens without a grand plan.

For-profit entities are a major component of education even when the schools are public and nonprofit. The buildings, the textbooks, the lab equipment, the hardware, the software, the beds, and even the food are all developed and delivered through for-profit markets. To argue that the profit motive is inimical to education is to deny our everyday surroundings. That's why the case made by the CEOs of for-profit colleges can seem so compelling: they are not hampered by tradition; they can bring in nearly unlimited capital, rapidly; there is nothing holding them back from pursuing efficiencies, creating the potential to meet student and industry needs at lower cost.

But the big difference between my smartphone and a college degree is that I don't have to trust Samsung that I have a working phone. I can tell it is. That's not the case with a college degree. What is most valuable about college is

often nebulous and unpredictable. Indeed, one of the most important goals of a liberal arts education is that it prepares — even *propels* - - students to explore and expand the boundaries of knowledge and creativity: that is how we advance as a society. Because the profit motive's unrelenting focus on measurable efficiencies can get in the way of that quest, higher education has traditionally been provided by churches, charities and public institutions where the profit motive is muted.

A degree is whatever a college says it is, the founder of the University of Phoenix said (somewhat ominously) 15 years ago. With an amorphous product like a college degree, investors are invited to spend little on educating, while maximize federal aid and recruiting students who are least likely to be able to demand real value for the money. Any college is capable of exploiting students and taxpayers, but the likelihood is greater where there is a conflict between the owners' financial interest and what makes for a quality education.

Kaplan University's CEO acknowledges this conflict. At his for-profit institution he can, “rev up the recruitment engine, reduce investment in educational outcomes” and deliver “a dramatic return on investment.” Publicly-traded companies in particular, he says, create pressures to “exploit the short-term opportunity for profits that's inherent in this model in a way that hurts students, taxpayers and the entire industry.”

The problems are *inherent* in the for-profit model. These are his words, not mine.

Congress has long been aware of this tension. The current statutory mechanisms for guiding for-profit colleges to socially optimal ends evolved from the approaches taken with the GI Bill, which were designed — quoting from 1976 — to “prevent charlatans from grabbing the veteran's education money.” Congress focused federal funding of for-profit colleges not on the important but amorphous pursuit of knowledge and development of leadership of the traditional institutions, but instead on the concrete, definable, measurable objectives of a *subset* of postsecondary education: job-specific training. The Department of Education should:

- Establish goals for career programs that that will drive colleges to provide high-quality training at an appropriate cost.
- Encourage colleges to prove their worth by showing that they can appeal to students and employers without federal aid, before they start a new program and once it is operating.
- Use consumer information and monitoring tools to better inform potential students and to keep colleges honest.

Financial incentives affect the decisions that anyone makes, sometimes dramatically. Congress banned bounty-paid admissions counselors because the bounties tend to transform what should be an advising job into a sales job, complete with exaggerated assertions, creative avoidance of relevant facts, and a pursuit of the most vulnerable. It alters the moral compass of the enrollment advisor. The ban on bounties applies equally to for-profit, nonprofit, and public institutions, yet the serious transgressions have occurred predominantly in for-profit colleges. Why? Because the owners themselves are paid bounties on a vast scale. It should be no surprise that the incentive has the same effect on their moral compasses as it does on their employees.

CEOs of for-profit colleges know they are different. They are the ones who make the case about innovation and the power of the market. The Department of Education's task is to zero in on how to steer their profit motive in the right direction. The more the for-profit colleges attempt to change the subject rather than engaging in the substantive discussion about accountability, the more problems we should assume the colleges are hiding. The more they gang up together rather than having a variety of opinions, the more we must assume that they are all — rather than just some of them — in this business to exploit more than to educate.

I have spent nearly my entire career working to expand access to quality higher education to more Americans. I would like nothing more than to tap the incredible power of the market to address the nation's education challenges. But without safeguards, it will go wrong, again, in a big way. The more rigorous the Department is in its expectations, the more successful it will be in creating a for-profit sector that does transform lives and provide real opportunities that benefit students and society.

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