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top officials at some of the industry's most influential companies to gain an insider's view of what distinguishes for-profit education from the traditional non-profit sectors. In talking with these folks, one thing was immediately apparent: The focus is strongly on the student, with officials pondering over complex questions such as:

- What does he or she want taught?
- How can we get better learning outcomes in a cost-effective way?
- Should we offer new courses or programs?

In contrast, conversations with presidents of major nonprofit universities often turn to issues associated with raising money from third parties, the difficulties in measuring and convincing the federal government about research overhead expenditures, the rankings of the college in various magazines, and a host of other matters not directly related to pleasing the undergraduate customer.

Another substantial difference between the two sectors relates to the use of facilities. The for-profit institutions have fewer square feet of space per student, use their space more intensively, and most important, generally do not own it — they rent from private entrepreneurs. We asked several executives, "Why do you rent most of the space you use instead of own it?" One response was the one we expected: "We are experts in the education business, not the real estate business." Another was, "In this environment, with vast vacancy in commercial office space, it is possible to get real value by renting, conserving our capital." Still a third response emphasized flexibility.

Recent increased scrutiny of the industry has resulted in an uncertain and complex regulatory environment. In the report, we provide a detailed analysis of the most pressing regulatory issues facing the industry and place them into four general categories: consumer protections, the use of public funds, operational issues and educational issues. Despite regulatory concerns, all the individuals we talked to were bullish about the future, planning significant investments in coming years with some increasing their attention beyond the market niches currently favored by for-profits: the adult, vocationally oriented market. A majority predicted more consolidation of firms will occur, although perhaps not for several years.

We conclude with a discussion of the economics of for-profit education, suggesting that the single characteristic that most sets it apart from the traditional sectors of higher education is the profit motive. Using economic theory we argue that profit is not an evil of society, but rather the engine that ultimately provides consumers with the things they want and need, and 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 — but they have not. Demand continues to be strong. We then suggest that the for-profit industry provides a useful function in that it increases competition for the traditional universities, leading many such schools to do things that are desirable but have been previously resisted, such as offering more weekend and evening classes, reaching out more to adult learners, and making more efficient use of facilities.

The for-profits also often use standardized curricula in ways that lower costs without any loss in student learning, a point that may eventually become more acceptable in traditional universities where suggestions for curricular innovation are often resisted by faculty who assert their academic freedom is being violated.

Our final words argue that the continued rise in tuition fees at rates greater than family incomes is not sustainable indefinitely and a reformation of higher education is necessary to deal with that reality. One element of that reformation is moving toward more efficient, market-based service providers such as for-profit schools. These schools, like any set of institutions, are not all perfect, and indeed there are no doubt some real issues relating to educational quality, the financing of students and the like. But these issues often exist for traditional providers as well. In any case, for-profit schools are increasingly important in the higher education landscape, and we see nothing to fundamentally alter that. It is time to accept that fact and use this reality constructively to improve American higher education. ■



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