FOR-PROFIT HIGHER EDUCATION – DOES IT ULTIMATELY BENEFIT THE UNITED STATES GOVERNMENT?

Corie Haylett
Appalachian State University

Abstract

Proprietary education has a long history dating back to the 1600's, which is similar to traditional institutions such as Harvard University. However, in the twentieth century, the number of for-profit institutions rose tremendously. Since the federal government has taken a special interest in making it fair for everyone to earn a college degree by providing federal student loans to all, college programs, for not-for-profit and for-profit alike, are scrutinized and regulated through public policy. This article analyzes and connects public policy issues as they relate to for-profit education and explains why these issues are relevant in America today. This article suggests that, ultimately, for-profit education benefits the United States government.

INTRODUCTION

Knowledge is power and education offers a channel for understanding and acquiring information. The education sector plays an important role in assuring that students receive proper training in their respective courses of study. Higher education, which is at the helm of the education system, is the final stage of students' journeys toward societal economic contribution, as independent adults. However, over the years, many challenges have risen barring otherwise aspiring students from joining post-secondary education. Among them are high costs and the minimum entry requirements that higher education institutions set forth for enrollment and tuition. These barriers have essentially created a vacuum, which has been duly filled by for-profit universities. These institutions are providing a suitable degree path for non-traditional students who otherwise would not be able to have access to a post-secondary degree program (Anctil, 2009). Anctil (2009) explained that, in the United States, the for-profit institutional sector has grown significantly in enrollment, which has increased the market share of this sector to almost 10% over the past decade. For-profit institutions have sparked investigation by the United States Senate, revealing massive malpractice and misconduct by stakeholders in the industry. These institutions target the vulnerable market, yet offer below average education, invest less in the pillars of a quality education, and end up with abysmal student outcomes. This, along with heavy spending on marketing and student enrollment, does not add up. Even worse is the fact that the huge profits realized thereafter are pocketed by individuals and little is invested in education (Wilson, 2010). Furthermore, research shows that in the United States, for-profit institutions account for just over 13% of schools nationwide and yet account for over 50% of student loans and defaults (Wilson, 2010). This implies that eventually, if the industry goes unchecked, this sector will dominate the market and an influx of low quality graduates will saturate society.

Educational leaders' and managers' awareness of the pubic policy issues that surround higher education is essential. Managers must be able to drive institutions toward success. Managers and leaders in educational facilities should study public policy, and have a clear understanding of its processes because public policy impacts the administration and delivery of education to students, which is the purpose of their position. Stakeholders include federal and local officials, judicial officers, and state legislators among others and each are involved in the formulation of public policy. Therefore, managers and leaders not only need to know student public policy and its processes, but be able to communicate with appropriate stakeholders if they are to be a part of the change process involving public policy. According to Tuckett (2006), public policy refers to actions by the federal government or other regulatory agencies aimed at addressing issues affecting the members of the public at large. Tuckett explained that public policies are developed through a process, which involves setting the agenda, option-formulation, and the implementation of policy. The implementation of public policy occurs across a range of time, depending upon the resources required and the nature of the policy. Tuckett further explained that public policy usually considers three things: 1) the player, 2) the problem, and 3) the policy. The players in educational public policy include institutions' leaders and managers, who are the individuals that influence the implementation of policy (DeBoer, 2011). These individuals work to ensure that the intentions of policy do, in fact, solve the problem(s) in question. Competent policy along with the management and implementation of such policy is necessary for ensuring that a particular standard of educational delivery exists within higher education institutions.

PURPOSE

Structural functionalism interprets society as a structure with parts that co-exist (Capper & Jamison, 1993). In this regard, if one part, say higher education, is mismanaged, then it follows that the rest of society will be affected negatively. Equally relevant is conflict theory, which asserts that some of society's members are constrained, and the accompanying status quo prevents society from moving forward (Allen & Seaman, 2008). The function of for-profit institutions is to break through the status quo while presenting an element for societal change. This may be viewed positively or negatively, depending on the circumstance(s); either way, it creates a societal imbalance. This article will reveal how for-profit universities are transforming society's view of higher education along with the characteristics and outcomes of the various institutions that offer the coveted certificate.

This article's analysis is based upon the literature related to the entire sector known as "for-profit" higher education. This article explores the intersecting points at which the interests of the for-profit sector and government, including its policies, either converge or conflict. How the literature describes government policies, what roles these policies play in respect to for-profit higher education, and how the literature illuminates the differences between for-profit and non-profit higher education are revealed.

Emergence of For-Profit Education

The literature addressing the history of for-profit higher education in the United States is sprawling and disjointed. For-profit higher education has transformed significantly in form and function over hundreds of years of development. Conceptual and methodological difficulties of reconciling these different accounts will be substantial, due to scholars examining aspects of the historical record that are relevant to an issue today. Such accounts organize themselves around themes such as scandal and reform, socioeconomic dynamics, oversight and regulation, political entities, and the role of publicly traded corporations in the developmental history of for-profit higher education. In light of these methodological challenges, of value is the relatively small amount of literature that attempts to organize the history of for-profit higher education via identification of different eras, or stages, in its development. Harper, Harper, & Quaye, (2008) identified six broad categories of the history of for profit institutions. First is the formative era (1494-1820), followed by the pioneer era (1820-1852), expansion era (1852-1890), competition era (1890-1944), federal student aid era (1944-1994), and the Wall Street era (1994-present). Harper, Harper, & Quaye's classification provides the most useful framework around which to organize a condensed history of the development of for-profit higher education in the United States.

Compressing the entire history of for-profit higher education to these paragraphs overlooks a number of historical details. Nonetheless, even from such a broad perspective, the details given can lend useful context to understanding how contemporary public policy towards for-profit higher education has been shaped. In particular, it is valuable to understand those dimensions of the historical development of the for-profit sector that become meaningful in the current policy context in which such institutions operate. This includes the sector's history of regulatory development, as well as sector behaviors that matter in how they influence outcomes that may concern both state and federal governments. Therefore, this research begins with a necessary abbreviated history that will broadly trace the key developments in the sector, noting especially the intersecting points at which the interests of the sector and government either converge or conflict (Smart & Paulsen, 2011).

The modern era of for-profit higher education is characterized by the improved regulatory environment established after the purges of the 1990's. By largely eliminating, or at least curbing the most rampant abuses within the sector, the federal government had left intact a core with a newfound legitimacy and access to continued federal student aid funding. These developments sent a positive signal to investors, who began to aggressively purchase stocks as more for-profit institutions and the corporations that owned them went public. Corporations were eager to participate in the sector due to the reduced price differential between the for-profit and public sectors and a stable competitive field established through regulation. Publicly owned corporate providers of higher education quickly became the most prominent face of the for-profit sector, which they remain today, despite making up a small proportion of the total number of proprietary institutions operating in the United States (Christensen & Eyring, 2011). According to Beaver, the "U.S. Department of Education now lists over 800 for-profits that have received state, regional, or professional accreditation and many grant degrees from the associate to the doctorate level…[and] are beginning to provide competition for the traditional non-profit sector" (2009, p. 53).

By the late 2000's, for-profit higher education was again in the spotlight. In 2010, the U.S. Government Accountability Office issued a scathing report detailing unscrupulous recruiting practices and fraud in federal financial aid programs at large for-profit institutions. The report generated an immense amount of press coverage and negative attention (Harper, Harper, & Quaye, 2008). In response to public outcry and negative media attention, the Department of Education proposed new rules governing eligibility to receive federal financial aid. The new rules, enacted in 2011, require institutions to demonstrate that graduates meet strict income-to-debt rations and loan repayment rates in order to maintain eligibility. More recently, for-profit targeting of veterans' benefits has again captured public attention. Military benefits are not considered as federal financial aid when calculating an institution's percentage of revenue under the 90/10 rule, making veterans lucrative targets for for-profit institutions (Aud et al., 2011). This latest controversy has provoked states into taking action, as fifteen attorney generals launched a joint investigation into potential violations of consumer protection laws by for-profit institutions.

The for-profit sector includes all institutions that are ineligible for non-profit status and which have the freedom to do whatever they wish with their financial holdings. Within this universe of institutions, there is great variation. For instance, institutions may or may not offer degrees and they range from vast, corporate-owned multi-campus companies to comparatively small, proprietor-run organizations. Scholars who undertake research on for-profit institutions have often failed to make distinctions between these vastly different parts of the sector, and much of the literature focuses exclusively on large multi-campus institutions, such as the University of Phoenix, therefore making it the only classification scheme included in the leading annotated bibliography of for-profit literature. Merisotis & Shedd (2003) suggest that an adequate classification of for-profit higher education should create mutually exclusive, policy-relevant, descriptive, and non-hierarchical categories using data readily available from all institutions within the sector. Harper, Harper, & Quaye (2007) proposed a new classification that seeks to build on both the ECS and Merisotis and Shedd taxonomies to elaborate on the two and four-year degree granting for-profit sector. Harper, Harper, & Quaye's classification consists of three characteristics. The first, location, refers to the number or geographic scope of campuses associated with the institution. The orientations of such institutions are further classified as neighborhood, regional, or national. The second characteristic, ownership, refers to the management structure of the institution, and can be classified as enterprise, venture or shareholder. The final characteristic, highest degree awarded, captures the level of education provided by the institution and can be classified as institutes, colleges, or universities. Harper, Harper, & Quaye's classification represents the most developed taxonomy of institutional type to date and allows the researcher to make important decisions about the focus of any given study. Obtaining accurate data on the for-profit sector has proven difficult due to the long-standing absence of an adequate classification scheme. Scholars tend to choose to focus on regionally accredited degree-granting institutions, since these institutions have essentially the same status as almost all private non-profit and public colleges and universities in the United States.

State Policy Roles Related to Higher Education

Based on the rapid growth of for-profit schools, attention and controversy gets drawn to this sector of higher education. More so, the areas that have earned the loudest public outcry include the behavior, the nature, and the outcomes of education in these institutions. Attention mainly was brought on by the fact that the government had increased funding for student loans, all of which was being directed to for-profit higher education (Newman, Couturier, & Scurry, 2010). In other words, achieving a coherent understanding of state policy dynamics with respect to the for-profit sector can best be explained by three key aspects. First, there is no broadly applicable consensus on the appropriate role of the state in management of the for-profit sector. The state ends up having a complicated role by its position as part of a shared regulatory arrangement between the state government, federal government, and accrediting bodies. As states increasingly confront issues generated by the growth of the for-profit sector, their role within the entire structure is being reconsidered. Second, the role of states in the management of higher education has been linked to a number of malpractices, which is directly related to their policies towards public, private non-profit, and for-profit higher education. Third, it has not been established that for-profit higher education discernibly or desirably responds to changes in state policies (Bok, 2009).

Today, a number of studies focus on how state policies impact private non-profit institutions in comparison to for-profit institutions. Zumeta (2004) found that the growth and robustness of private non-profit colleges is highly affected by these state policies. Newman, Couturier, & Scurry, (2010) found that certain aspects of non-profit education respond in predictable ways to these state policies given some assumptions about the enrollment. On the other hand, these policies tend to have varied and unpredictable characteristics. Furthermore, for-profit higher education has rapidly grown from a relatively small, specialized segment of the higher education market to a key component of the sector now controlling a larger market share. This rapid evolution and the attendant controversies mentioned earlier have contributed to a rise in state policymaking and legal activity (Zumeta, 2004). In 2011, a number of bills aimed at establishing or strengthening oversight of for-profit higher education were introduced in several states. This coupled with the changing arena of for-profit institutions, complicates the task of understanding how policies affect developments in the for-profit sector.

According to Beaver, who referenced a governmental report, "by 2009 for-profits accounted for 9% of undergraduate enrollments, up from just 3% in 2000" (2012, p. 274). Moreover, revenues climbed to $29 billion dollars for the for-profit sector and the University of

Phoenix, the most widely known for-profit university system in the U.S., has an enrollment of 450,000 students, making it the second largest university in the U.S. (Beaver, 2012). Beaver (2009) mentioned that “these kinds of numbers certainly caused the traditional academic world and [even] Wall Street to take notice” (p. 53). However, not-for-profit institutions grew only a fraction of that. As a result of this disproportionate growth, there are at least four states in which for-profit enrollment has surpassed enrollment in the private non-profit sector, these being Connecticut, Maryland, California, and Michigan (NCSL, 2013). As the for-profit market share continues to increase, there are likely to be further states in which for-profits emerge as a major, if not dominant provider of postsecondary education (Fullan & Scott, 2009). State governments express interest in higher education outcomes that relate to strengthening and diversifying the economy; preparing and training a high-skilled, high-wage workforce; and raising the level of educational attainment of the state's population (Fullan & Scott, 2009). In light of those goals, it is worth noting that some recent evidence suggests that for-profit higher education may produce markedly different outcomes than public or private non-profit higher education. In at least some of these outcomes, for-profit institutions appear to outperform their counterparts in the non-profit sector; in others, they appear to lag behind. For states in which for-profit higher education is evolving to become a significant provider, it would thus seem critical to take into account the appropriate role of for-profit institutions as well as how state policy can influence their outcomes. These states will ultimately become prominent proving grounds for understanding the dynamics of state policy development toward the for-profit sector. Yet, to date, there is scant literature directly examining state policy toward for-profit higher education, whether in single case studies or comparatively across states (Hentschke, Lechuga, & Tierney, 2010). Moreover, such work tends to be purely descriptive and focuses on what Zumeta (2004) refers to as policy statistics at the expense of understanding policy dynamics. As a result, neither the full range of the current state policies nor the ways in which different factors affect state policymaking toward for-profits is well understood.

Scholars of higher education should seek a better understanding of the variation in state policy toward for-profit higher education. Considerably aiding any such effort is a conceptual schema that accounts for the diversity of for-profit sectors across states and the range of policies affecting them. Zumeta (2004) suggests that state policies can be usefully understood as the outcomes of policy postures that represent clusters of reasonably consistent policies indifferent domains. He proposes a framework that outlines five such postures: laissez-faire, central planning, market competitive, plus two hybrid postures. These postures represent different approaches to the use of policy tools, such as student aid policies, direct support of institutions, public sector tuition pricing, information and accountability policies, and others. Therefore, this paper will explore literature on federal and state policies toward for-profit higher education in order to assess the utility of Zumeta’s policy posture framework in investigating state policies toward for-profit higher education. Thus far, such postures have been applied to policy affecting the private non-profit sector, with evidence suggesting that state policies that influence private non-profit higher education are not random, but instead are systematically linked in key ways described by the framework (Zumeta, 2004). The utility of this framework suggests at least the possibility that such postures might also be useful. Additionally, where it comes to accounting for the differences in state policies towards for-profit higher education, these state policies come in handy. If such comprehensible state policy postures towards the for-profit sector can be identified, then their presence will be confirmed and cause new avenues of inquiry to be opened. Inquiry would be of interest to scholars seeking to think systematically about the wide range of policies that might affect for-profit higher education. This inquiry would also benefit policymakers seeking to understand options for intervening in order to affect possible outcomes and how to assess the feasibility of such interventions. According to Helm-Stevens, Brown, and Russel (2011),

> knowledge management has the potential to develop strategic advantage and enhance the performance of an organization…[and] organizations are contributing significant resources to knowledge management investing in …and implementing knowledge management processes and systems…[but] most of these processes and systems…omit the critical element of value. (p. 126)

Financial, Economic and Educational Outcomes

For-profit institutions have been the subject of substantial scrutiny regarding their financial, educational and economic student outcomes. Studies have established that the for-profit sector disproportionately serves older students, members of minority groups, and low income students (Beaver, 2009). There is a wealth of literature that examines whether these kinds of differences in student characteristics and backgrounds account for different rates of default. Such literature consistently finds that students of color are more likely to default than their Caucasian peers and that race or ethnicity is one of the strongest predictors of default (Fullan & Scott, 2009). The relationship between race/ethnicity and likelihood of default appears to hold regardless of the institutional type, whether the institution is public, private non-profit or for-profit. There is also evidence that student age affects the likelihood of loan default, with greater age correlated with an increasing likelihood of default. Different proxies for socioeconomic status also influence student loan default rates. In particular, lower family income is positively correlated with higher default rates. Although there are clearly identifiable correlations between student characteristics and student loan default rates, the confluence of factors that cause these differences is little understood (Hentschke et al., 2010). Studies have consistently found that institutional type does not significantly contribute to differences in student loan default rates. Differences by institutional type appear to derive from the characteristics of the borrowers and their achievements instead of the nature of the institutions they attend.

A large amount of literature corroborates the contention that differences in student loan default rates by institutional type disappear almost entirely when borrowing behaviors, student background characteristics, and institutional resources are considered. In light of those findings, differences in default rates between the non-profit and for-profit sectors may reflect the straight forward reality that different institutional types simply attract different types of students. Some scholars interested in this issue have focused on the relationship between the types of students that enroll in for-profit institutions and risk factors for student loan default. Bok (2009) used socioeconomic and ethnicity variables that correlate as risk factors for loan defaults to determine whether students with higher risk factors were more likely to enroll in for-profit institutions. Concluding that they were, Bok suggested that efforts to reduce loan default should not focus on the for-profit sector per se, but instead on the students themselves. Similarly, for-profit institutions have a greater tendency to enroll high-risk students, which contributes to the sector's disproportionate rate of default. In other words, since for-profit higher education lead to high risk minorities borrowing, it also stands that there is a higher risk and rate of student defaulters who fall in this category. While on its face, this assertion is logically true in that the context of for-profit higher education is misleading and mischaracterizes the findings of a substantial literature. It also rests on a largely unproven claim that for-profit institutions routinely push for high-risk students to borrow against their best interests. Apart from the documented fraudulent practices of a few institutions, there is little evidence to suggest that for-profit institutions themselves are directly causing or contributing to higher rates of student loan defaults among their students.

Little rigorous work has historically been undertaken that investigates labor market outcomes for graduates of for-profit institutions. Comparing to similar students who attended community colleges or other non-profit institutions, there is a higher student unemployment rate and lower earning for students six years after entering for-profit programs. A report prepared by the U.S. Government Accountability Office suggests that students who started at for-profit schools had similar annual earnings, but higher rates of unemployment compared to students who started at non-profit and public schools. On a keen observation, self-reported employment rates by for-profit institutions appear quite high, and apart from circumstantial evidence, little concrete data is available to show that for-profit higher education offers a better chance of employment. Educational outcomes at for-profit institutions have been a subject of widespread concern, but there is surprisingly little data to inform a nuanced exploration of whether for-profit institutions serve students effectively. Harper, Harper, & Quaye (2007) undertook an in-depth historical analysis of studies on for-profit student outcomes. He noted from those studies that for-profit institutions appear to show better graduation rates than non-profit institutions at the two-year level. At the bachelor's degree level, however, fewer students complete a degree and those who do tend to take much longer. It can safely be concluded that for-profits are better at helping students complete short degree programs, but are not as successful as non-profit institutions in helping students complete bachelor's degrees. The finding that for-profit institutions tend to have higher retention rates in the first year of the program and higher completion rates for short programs at the certificate and associate degree levels is verifiable. However, they find that students graduating from for-profit institutions are much less likely to continue to higher-level college courses and to gain a bachelor's degree. Finally, some evidence suggests that graduates of for-profit schools generally have lower pass rates for employment licensing exams than graduates from non-profit institutions.

The Returns On a For-Profit Degree

The existing literature offers no clear answer as of yet as to both the public and private returns of for-profit higher education. There is substantial literature on economic returns to higher education, but it has largely ignored the for-profit sector. Only a few studies have attempted to provide credible assessments of college quality in the for-profit sector. Such studies focus on the private returns to education for for-profit students. Three studies have generated cross-sectorial comparisons of average earnings between for-profit and community college students, generally finding no meaningful differences in earnings between the two sectors. These studies were restricted in that they did not attempt to determine if there are differential earning gains among the different sectors. Allen & Seaman (2008) use the National Longitudinal Survey of Youth 1997 to estimate the labor market returns, or earnings gains, to a for-profit education, focusing on two-year colleges. They find that both sectors generate earnings gains of around 8% per year for students who complete their degrees, with no meaningful differences between the sectors. The study is limited in that it does not distinguish between students enrolled in two-year degree programs at for-profit and private non-profit institutions, obscuring potential differences between the sectors at that level. Additionally, they discounted this potential effect by asserting that the vast majority of students who attend private two-year colleges attend for-profit colleges. Data from the BPS surveys, however, contradict that assumption and instead indicate that almost half of students beginning associate's degrees at private institutions are enrolled in a non-profit institution.

Building on Cellini's work, Wilson (2010) used income tax data to assess the differential return to attendance at for-profit and non-profit institutions. Turner's data allowed him to include both older students and students enrolled in both two-year and four-year degree programs. His preliminary results reveal that earnings are about 8% lower for for-profits relative to non-profits. His estimate of the absolute return of a for-profit education is small and imprecise; however, tax returns are an imperfect way of obtaining relevant data. Anctil (2009) used data from two iterations of the Beginning Post-Secondary Students Survey to compare labor market outcomes for students who attend two-year for-profit programs with students who attend community colleges. He found that students who attend two-year for-profit colleges perform uniformly worse on the job market compared to community college students. Anctil's methodology used the number and institutional type of colleges near a student as the instrument for the type of institution the student chooses to attend. However, using the number of colleges of each institutional type as the instrument for the type of institution the student attends is problematic. School location is also endogenous and it seems unlikely that it is able to be corrected for the many demographic variables that inform where community colleges and for-profit institutions are located.

Conscious of the possibility that poor labor market performance may reflect pre-entry differences in student characteristics, their work attempts to control student characteristics using ordinary least squares and propensity score methods. Even after controlling for an extensive set of background characteristics, the authors find that students at for-profit institutions do not benefit more and often benefit less from their education than apparently similar students at both public and private non-profit institutions. Allen & Seaman (2008) present a promising approach that examines the economic returns of for-profit higher education. However, this approach must be viewed cautiously as it tends to be one sided. As the authors note, the income data comes from a period of extreme economic recession, possibly confounding labor market results of for-profit graduates. Employers may know or assume that for-profit graduates are of lower quality than their counterparts graduating from non-profit institutions. Finally, the data only allowed the authors to observe wages a few years after completion of a degree, resulting in limited estimation of short-run labor effects.

Fullan & Scott (2009) noted a number of areas in which future research could improve on these results. They suggest that researchers focus on certificates and degrees based on their value in the work force since there is wide variation in the value of certificates and degrees by field of study. They also suggest focus should be on other variables, given that some programs that disproportionately attract women tend to have different outcomes in the labor market. Therefore, future studies of economic and financial returns on for-profit education need to be more careful when it comes to identifying and controlling for potentially relevant characteristics of students and the programs they enroll in over time.

The common argument is that for-profit higher education is a good investment of taxpayer money; the institutions are academically effective and operationally efficient. In 2011, the Nexus Research and Policy Center issued a research report similarly concluding that for-profit degrees represented the most efficient use of tax payer dollars. In March of 2014, the Nexus Research and Policy Center issued a follow-up research report concluding that "there would be substantial fiscal costs if the proprietary section shut down and…[those] students…sought access to public colleges and universities" (p. 11). Interesting, the study suggests it would cost the taxpayers of the states of California, New York, Ohio, and Texas almost $8.4 billion to educate these students, and using another metric, $11 billion.

Other scholars found no significant differences in the cost per student at for-profit and non-profit institutions, calling into question the argument that for-profit institutions are more efficient than non-profit institutions. Cellini's economic analysis of the costs and benefits of for-profit higher education (2012) found that for-profit institutions cost taxpayers less per student than community colleges, but that public and private costs together make for-profit institutions much more expensive. Many scholars have noted that such studies exclude considerations of how well for-profits contribute to other important public good outcomes of higher education such as contributing to the nation's intellectual capital, increasing civic participation, and providing recreational and cultural services to the broader community. No studies to date have sought to differentiate between the social returns to different institutional types or across different sectors. Scholars focusing exclusively on the private return of for-profit education understandably omit any possibility of social returns from consideration. For authors seeking a comprehensive analysis of costs and percent of former students who were paying down the principal on their loans, and who were fully eligible for aid, this is a difficult task. Programs, whose graduates carried debt-to-earnings ratios above 30% of discretionary income and 12% of total income, and where fewer than 35% of former students were paying down principal on their loans, were ineligible for aid (Cellini, 2012). The Association of Private Sector Colleges and Universities argued that the gainful employment rules were based on arbitrary figures and took legal action to stop it from being implemented. In July, 2012, a federal judge partially agreed and struck down the gainful employment rule, calling the 35% threshold "arbitrary." This was widely perceived as a victory for the for-profit sector and as a manifestation of the sector's lobbying strength and prowess. However, that ruling will change, and as a result, in 2014, the U.S. Department of Education reported the Obama Administration enacted regulation that institutions, for-profit, private non-profit, and public, "prepare students for 'gainful employment in a recognized occupation'" (2014, p. 1). Also, on July 1st, 2015, the U.S. Department of Education reported the gainful employment regulations will take effect. This means higher education institutions are at-risk to losing funds from federal student aid. In other words, "a program would be considered to lead to gainful employment if the estimated annual loan payment of a typical graduate does not exceed 20 percent of his or her discretionary income…or 8 percent of his or her total earnings" (U.S. Dept. of Ed., 2015, p. 1-2). Interestingly, about 99 percent of at-risk programs, according to the U.S. Department of Education, are at for-profit institutions.

Another way that the federal government has played a consumer protection role is through negotiated rulemaking that limits how for-profit institutions can reward staff who recruit new students. Such incentive compensation rules mandate that,

> for-profit institutions not provide any commission, bonus, or other incentive payment based directly or indirectly upon success in securing enrolments or financial aid to any person or entity engaged in any student recruiting or

> admission activities or in making decisions regarding the awarding of title IV funds. (p. 1)

The federal government argues that such compensation practices encourage recruiters to enroll unqualified students without consideration for whether or not they would be able to successfully complete a program.

RECOMMENDATIONS

An important benefit of consumer protection is the investor protection function of the federal government. The SEC regulates publicly-traded for-profit education providers, and has conducted many investigations focusing on misleading statements to investors or financial viability. The SEC's regulatory authority is powerful, but indirect in an educational sense, since it may actually encourage observers and investors to measure the sector's success in terms of profitability and market penetration. These measures protect investor interests, but have little to do with educational outcomes or value. The federal government has a pronounced interest in how federal money is used by for-profit institutions, since the for-profit sector receives a disproportionate amount of its revenue from federal student aid. To illustrate, in 2008 the federal government provided approximately 14% of revenue to public institutions and 11% of revenue to private institutions (Cellini, 2012). The for-profit sector, by contrast, earned 62% of its revenue from federal financial aid funds (Cellini, 2012). Accountability is ensured via two main mechanisms: the 90/10 rule and cohort default rules. The 90/10 rule requires that an institution not receive more than 90% of its revenues from federal grants and loans in order to remain eligible for Title IV federal student aid funds. The justification of this rule is two-fold: first, to prevent fraud and abuse by ensuring that institutions provide an education that at least some students are willing to pay for, and second, if it is unable to generate 10% of its revenue from other sources, this is an indication that it is not offering quality education and not deserving of federal funding. The federal government also establishes standards around cohort default rates that must be met if a for-profit institution wishes to remain eligible to receive Title IV funding. Given that for-profits receive most of their revenue from such funding, according to the U.S. Department of Education (2015), and that most students attending for-profit are dependent on it, losing that eligibility would be disastrous for many for-profit institutions.

Beginning with the G.I. Bill, in the mid-twentieth century, accreditation agencies have basically served as the "gatekeepers" to federal financial aid funding. Typically, for-profit institutions have been accredited by national accreditors, although they are increasingly seeking to obtain regional accreditation. Those for-profit institutions that have obtained regional accreditation have often done so by purchasing financially struggling colleges that already have accreditation or by instituting new programs at schools that are already accredited (Jaschik, 2010). There are some signs, however, that the federal government views accreditation via acquisition and association as suspect and may take steps to stop regional accreditors from engaging in these permissive practices; states inquire about regulations governing the operation of degree-granting for-profit institutions of higher education (Zumeta, 2011; Brimah, 2000; Sheeo, 1999). A study found great variation in licensing, degree-granting, and availability of state aid to students attending for-profit institutions (Harnisch, 2012; Brimah, 2000). In six of the states, boards in charge of private institutions granted the licenses, while in others the board that oversees public colleges and universities also governed for-profit institutions (Brimah, 2000). As indicated by Brimah, 10 of the 11 states surveyed did not have an established degree-granting process specifically for for-profit institutions and of the 11 states surveyed, nine provided some means of financial assistance to students attending or wishing to attend for-profit institutions. The conclusions of this survey were analyzed that sought to broadly determine whether for-profit institutions receive differential treatment within state policy. The report concluded that state statutes and regulations have no specific definition distinguishing for-profits from non-profit institutions (Brimah, 2000). In 2001, the ECS completed a three-year study of for-profit degree-granting institutions, including development of an inventory of for-profit institutions, analyses of accreditation and state regulation, and a review of the research literature on the for-profit sector (Kelly, 2001). The study posed the following questions for state policymakers:

1. Can for-profit degree-granting institutions be part of the solution when states need to expand access to high-demand programs? Should these institutions be involved in state wide programmatic initiatives?
2. Should states be concerned about competition and duplication of programs among sectors?
3. Should for-profit degree-granting institutions participate in state student financial aid programs, benefit from infrastructure development or receive other types of state support?
4. How should for-profit institutions be regulated? Are current regulatory processes appropriate for for-profit institutions?
5. To what extent should the market determine which institutions operate and which programs are offered?

These questions still resonate long after they were first raised. At the conclusion of their study, the ECS suggested that policymakers could better address these questions if they had sufficient information about the outcomes of for-profit higher education. A decade later, we know marginally more about some of those outcomes, but little has been done to update our knowledge of state policies or how states respond to the above questions. The questions posed by ECS remain largely unanswered although arguably of more importance now than they were at the time of the study. ECS' foundational work in this area remains largely unimproved upon, although the findings are now well out-of-date given the substantial developments in the sector since the early 2000's. Only a small amount of scholarly work has since focused on for-profit higher education through the lens of state policy.

SUMMARY

In summary, a recap of the main points mentioned in the literary analysis point to the fact that for-profit higher education fills a huge gap in the education sector. This is advantageous in that a change is given to everyone to better their education levels and standards. Additionally, when it comes to revenue generation, the for-profit higher education sector has boosted not only the student loan sector, but overall university enrollment as well. Educational leaders and managers need to stay up-to-date with such public policy changes in order to make sound decisions for the educational institution he or she leads. However, the string of positive aspects is not as long. The high boom in the for-profit sector comes with many disadvantages. The most obvious of which is the questionable education quality. This has led to the government enacting a number of policies in a bid to regulate the sector. As a result, efficient and effective educational leadership and management will be a necessity in the years to come, hopefully, to save the future of higher education. The study of public policy is necessary for managers and leaders to do their jobs effectively. Knowing how to deal with certain situations as well as where and how to find and apply for special funding, and knowing the requirements for both the state and federal government is a must when in an administrative position. Therefore, educational managers and leaders must keep up with public policy to not only increase enrollment and benefit students, but to stay out of trouble as well.

REFERENCES

Allen, I. E., & Seaman, J. (2008). Staying the course. *Babson Survey Research Group: The Sloan Consortium*.

Allen, I. E., & Seaman, J. (2010). Class differences: Online education in the United States, 2010. *Sloan Consortium*.

Anctil, E. J. (2009). *Selling higher education: Marketing and advertising America's colleges and universities: ASHE Higher Education Report*: San Francisco: Jossey-Bass.

Association of Private Sector Colleges and Universities v. Duncan, et al., No. 11-5174 (D.C. Cir. June 5, 2012).

Aud, S., Hussar, W., Kena, G., Bianco, K., Frohlich, L., Kemp, J., & Tahan, K. (2011). The condition of education 2011. NCES 2011-033. *National Center for Education Statistics*.

Beaver, W. (2009). For-Profit higher education: A social and historical analysis. *Sociological Viewpoints, 25*, 53-73. Retrieved from http://search.proquest.com/docview/221242597?accountid=14129

Beaver, W. (2012). Fraud in for-profit higher education. *Society, 49*(3), 274-278. doi:http://dx.doi.org/10.1007/s12115-012-9541-0

Bok, D. (2009). *Universities in the marketplace: The commercialization of higher education*: Princeton University Press.

Brimah, T. (2000, Fall). Higher education: Are for-profit institutions treated differently? Education Commission of the States (ECS). *State Education Leader, 18(3)*.

Capper, C. & Jamison, T. (1993). Outcomes-based education reexamined: From structural functionalism to poststructuralism. *Educational Policy, 7*(4), 427.

Cellini, S. (2012). For-profit higher education: An assessment of costs and benefits. *National Tax Journal*, 65(1), 153-180.

Christensen, C. M., & Eyring, H. J. (2011). *The innovative university: Changing the DNA of higher education from the inside out*: John Wiley & Sons.

DeBoer, G. E. (2011). *The role of public policy in K-12 science education*. Charlotte, N.C: Information Age Pub.

Fullan, M., & Scott, G. (2009). *Turnaround leadership for higher education*: Wiley. com.

Harnisch, T. (2012, April). *Changing dynamics in state oversight of for-profit colleges*. American Association of State Colleges and Universities. Retrieved from http://www.aascu.org/uploadedFiles/AASCU/Content/Root/PolicyAndAdvocacy/PolicyPublications/Policy_Matters/Changing%20Dynamics%20in%20State%20Oversight%20of%20For-Profit%20Colleges.pdf

Harper, S., Harper, S. R., & Quaye, S. J. (2008). *Student engagement in higher education: Theoretical perspectives and practical approaches for diverse populations*: Routledge.

Helm-Stevens, R., Brown, K. C., & Russell, J. K. (2011). Introducing the intellectual capital interplay model: Advancing knowledge frameworks in the not-for-profit environment of higher education. *International Education Studies, 4*(2), 126-140. Retrieved from http://search.proquest.com/docview/869135007?accountid=14129

Hentschke, G. C., Lechuga, V. M., & Tierney, W. G. (2010). *For-profit colleges and universities: Their markets, regulation, performance, and place in higher education*: Stylus Publishing, LLC.

Howlett, M., Ramesh, M. and Perl, A. (2009). Studying public policy, policy cycles & policysubsystems. (4 ed.). Don Mills, Ontario: Oxford University Press.

Jaschik, S. (2010). Standing up to 'accredidation shopping'. *Inside Higher Ed*. Retrieved from https://www.insidehighered.com/news/2010/07/01/hlc

Kelly, K. (2001, August). The rist of for-profit degree granting institutions: Policy considerations for states. Education Commission of the States (ECS). Retrieved from http://www.ecs.org/clearinghouse/28/37/2837.htm

National Conference of State Legislatures (July, 2013). *For profit colleges and universities*. Retrived from http://www.ncsl.org/research/education/for-profit-colleges-and-universities.aspx

Newman, F., Couturier, L., & Scurry, J. (2010). *The future of higher education: Rhetoric, reality, and the risks of the market*: John Wiley & Sons.

Nexus Research and Policy Center (2014). *Do pripriетary institutions of higher education generate savings for states?* San Francisco, CA: Klor de Alva, J. & Schneider, M.

Nexus Research and Policy Center (2011). *Who wins? Who pays? The economic returns of a bachelor's degree*. San Francisco, CA: Klor de Alva, J. & Schneider, M.

Smart, J. C., & Paulsen, M. B. (2011). *Higher education: Handbook of theory and research* (Vol. 26): Springer.

The State Higher Education Executive Officers. (1999). T*he methods and effectiveness of state licensing of proprietary instituions*. Retrieved from http://files.eric.ed.gov/fulltext/ED337111.pdf

Tuckett, A. (2006). Advocacy and public policy. *Convergence*, *39*(2/3), 197-204.

U.S. Department of Education. (2015). *Fact sheet: Obama Administration increases accountability for low-performing for-profit institutions.* Retrieved from http://www.ed.gov/news/press-releases/fact-sheet-obama-administration-increases-accountability-low-performing-profit-institutions

U.S. Department of Education. (2014). O*bama Administration announces final rules to protect students from poor-performing career college programs*. Retrieved from http://www.ed.gov/news/press-releases/obama-administration-announces-final-rules-protect-students-poor-performing-career-college-programs

Wilson, R. (2010). For-profit colleges change higher education's landscape. *The Chronicle of Higher Education, 56*(22), 1.

Zumeta, W. (2004). State higher education financing. *Public funding of higher education: Changing contexts and new rationales*, *79*.

Zumeta, W. (2011). State policies and private higher education in the USA: Understanding the variation in comparative perspective. *Journal of Comparative Policy Analysis: Research and Practice, 13*(4), 425-442.

AUTHOR BIOGRAPHY

Corie Haylett is a doctoral candidate at St. Thomas University, Miami Gardens, Florida, United States, where she is studying and researching educational leadership and management. She currently teaches business communication and entrepreneurship courses at Appalachian State University and has been teaching communication and management courses since 2006. She studied communication systems strategy and management at Northwestern University, earning a M.S. in Communication degree and business administration at the University of Maryland – University College, earning a B.S. in Business Administration degree. Corie is also a Stanford Certified Project Manager, earning a graduate certificate from Stanford University. Before pursuing a career in higher education and research, Ms. Haylett worked as a paralegal, after earning an A.A.B. degree from an A.B.A. approved program, at the University of Toledo, for over 8 years, working alongside the managing partner, specializing in business law, real estate law, and estate planning.

PREFERRED CITATION

Haylett, C. (2016). For-profit higher education – does it ultimately benefit the United States government? *Journal of Ethical Educational Leadership, 3*(1), 1-15. Retrieved from: http://www.cojeel.org.

JEEL

www.cojeel.org

The views expressed in this publication are not necessarily those of *JEEL's* Editorial staff.

***JEEL* is a free, open-access online journal.**