A Veblenian Analysis of For-Profit Universities

John P. Watkins,
Professor of Economics
Westminster College

and

James E. Seidelman
Distinguished Service Professor of Economics
and Provost at Westminster College, 2003-2014, member of Northwest Commission of Colleges and Universities from 2004-2013, and served as Chair of the Commission from 2010-2013.

jwatkins@westminstercollege.edu

jseidelman@westminstercollege.edu

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Abstract: Education policy has been guided by two seemingly opposing forces: broaden the access to the community's knowledge base and privatize the costs of that access. Broadening access entails helping marginal students—the poor, minorities, single women, veterans and so on. Privatizing access involves government-provided loans and grants totaling $138 billion from 2010 to 2016 to students attending for-profit schools. This policy resulted in low-graduation rates while enriching stock holders, providing them "something for nothing." Addressing low-graduation rates requires changing the accreditation of for-profit schools, a change that affects the allocation of federal funds, changes that the Obama administration is currently trying to implement. The issue raises several questions. First, how would Thorstein Veblen view efforts to expand educational opportunities for students? Second, what factors gave rise to for-profit schools? And third, what policies can we enact to provide students access to a higher education?

Key words: Education Policy, For-profit Universities, Student Loans, Thorstein Veblen

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Education policy has been guided by two seemingly opposing forces: broaden the access to the community's knowledge base and privatize the costs of that access. Broadening access entails helping marginal students—the poor, minorities, single women, veterans and so on. Privatizing access involves government-provided loans and grants totaling $138 billion from 2010 to 2016 to students attending for-profit schools. This policy resulted in low-graduation rates while enriching stock holders, providing them to "something for nothing."

The issue raises several questions. First, how would Thorstein Veblen view efforts to expand educational opportunities for students? For Veblen, higher education presents a paradox: basing higher education on business principles undermines the university's scholarly pursuits, pointedly illustrated by for-profit universities. But Veblen also recognized that institutions evolve in response to evolving conditions. Despite whatever invidious aspirations higher education entails, it provides a means of sharing and expanding the community's knowledge base. "The scheme of technological insight and proficiency current in any given culture is manifestly a product of group life and is held as a common stock, and as manifestly the individual workman is helpless without access to it" (Veblen, [1914] 1964, 138).

While providing access, educational institutions also serve as gatekeepers to jobs requiring technical proficiency. In enhancing the possibilities of acquiring a well-paying job, education provides an effective means of mitigating inequality. The importance of education is further enhanced considering future-job expectations. The President's Council of Economic Advisors in 2011 anticipates that "[o]ver the next ten years, nearly half of all new jobs will require education that goes beyond a high school degree. And yet, as many as a quarter of our students aren't even finishing high school" (United States Committee, 2011, 5).

Second, what factors gave rise to for-profit universities? For-profit universities date back at least to the 19th century. Traditionally, for-profit schools offered certificates in various vocational trades. Their entry into higher education did not occur in earnest until the first decades of the 21st century.

And third, what policies can we enact to provide students access to a higher education? A broader question, however, is whether we as a society should absorb the costs of providing higher education? Or should we continue to privative education, albeit with reforms? Addressing low-graduation rates requires changing the accreditation of for-profit schools, a change that affects the allocation of federal funds, changes that the Obama administration is currently trying to implement. A Staff report of the Department of Education recommends denying the accreditation status to the Accrediting Council for Independent Colleges and Schools, thereby eliminating the largest source of revenue for most for-profit schools.

For-Profit Schools: A Veblenian Perspective

How would Veblen view the current policy of expanding the student loan program and the success of for-profit universities? Veblen would be unsurprised by the efforts of for-profit schools to benefit from government's largesse. "The typical American businessman watches the industrial process from ambush, with a view to the seizure of any item of value that may be left at loose ends. Business strategy is a strategy of 'watchful waiting,' at the centre of a web; very alert and adroit, but remarkably incompetent in the way of anything that can properly be called 'industrial enterprise'" (Veblen, [1918] 1965, 206-07).

Veblen's views on higher education are largely found in the last chapter of *The Theory of the Leisure Class* titled "The higher learning as an expression of the pecuniary culture," and particularly his book *Higher Learning in America.* Veblen divided higher education into two forms: esoteric and exoteric knowledge. Esoteric knowledge refers to knowledge lacking practicality, reflecting its origins as a "by-product or by-occupation of the priestly classes" (Veblen, [1899] 1953, 367). The pursuit of esoteric knowledge prepares the student for entry into the leisure class. Hence, the function of higher education lay in developing, refining, and transmitting to the next generation the knowledge that underlies and supports the existing power structure. This knowledge "is taken to embody a systemization of fundamental and eternal truth." (Veblen, [1918] 1965, 2). In contrast, exoteric knowledge "comprising chiefly knowledge of industrial processes and of natural phenomena which were habitually turned to account of the material purposes of life" (Veblen, [1899] 1953, 367). In this regard, Veblen recognized the importance of engineers in keeping industrial processes humming.

> It follows that those gifted, trained, and experienced technicians who now are in possession of the requisite technological information and experience are the first and instantly indispensable factor in the everyday work of carrying on the country's productive industry. They now constitute the General Staff of the industrial system. (Veblen, [1921] 1965, 133)

Despite Veblen's criticisms of higher education, he also believed that institutions should serve to ameliorate society. Institutions should be serviceable, not mere relics perpetuating invidious distinctions. Thus, Veblen held a paradoxical view of higher education, a paradox stemming from education's conflicting roles, its role in providing entry into the leisure class versus its role in providing access to the community's store of knowledge.

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[1] For a discuss of Veblen's views of education, see Thomas Sowell's article, "Veblen's Higher Learning after Fifty Years" (Sowell, 1969).

Since Veblen's time, changes in technology, globalization, and policies that favor the rich have devalued blue-collar jobs, making a college degree requisite for achieving the pecuniary standard. Those with a college degree earn higher incomes, have more wealth, and live longer than those without. In response, the Obama administration expanded the student loan program to raise incomes, help students, particularly nontraditional students, and meet the needs of the economy. Government's efforts to expand opportunities for higher education, however, also expanded opportunities to profit.

Origins of For-Profit Schools

How then did for-profits schools originate? At least three factors played a role in giving rise to for-profit schools: the move to privatize higher education, changes in technology, and expanding the student-loan program. Historically for-profit schools limited themselves to vocational training. Their entry into more traditional-college education correlates with expanding the student-loan program and helping marginal groups.

Privatizing education contrasts with the socialization of higher education after World War II.[2] President Roosevelt feared that the depression would return following the war. He wanted to avoid men returning to 'a place on a bread line or on a corner selling apples' (Roosevelt quoted in Olson, 1973, 598). In response, Congress passed the GI Bill, officially known as The Servicemen's Readjustment Act of 1944. The GI Bill "was an anti-depression measure" (1973, 600).[3] Initial estimates placed the number of veterans using the bill at approximately 700,000; in fact, 2,232,000 veterans attended college on the GI bill (Olson, 1973,

[2] Besides healthcare, higher education "is the only important industry in the United States that has been increasingly socialized in recent decades" (Hansmann, 2012, 159)
[3] The original bill provided education to students over 25 for one year.

602). In 1947, veterans comprised 49% of student admissions. " By the time the original GI Bill ended on July 25, 1956, 7.8 million of 16 million World War II Veterans had participated in an education or training program" (2016b)

Hints at privatizing education occurred with the passage of The Veterans' Readjustment Assistance Act of 1952, which required that 15% of students had to pay full tuition. The Higher Education Act of 1965 denied federal funding to students attending for-profit colleges. In 1972, the Act was amended allowing for-profit schools to access federal funding and subsequent amendments in 1979 and 1986 further broadened access, increasing the loan funds available to the for-profit sector.

Beginning in the 1970s, state governments made a concerted effort to shift the financing of education from states to students. "Today, market forces play an ever-increasing role in higher education. This reverses a historical trend characterized by state-centered expansion, public subsidies, and nonprofit organization" (Simmons, 2013, 334). In 1990, tuition as a share of total education revenues for full time equivalent students at public schools in the United States was on average 25%. By 2015, that had increased to 47%. Over the same time, educational appropriations fell from $8688 to $6966 in constant dollars. Average tuition more than doubled (State Higher Education Executive Officers Association, 2016)

Clayton Christensen's theory of disruptive innovation (2011), what Joseph Schumpeter called "creative destruction," provides insights into the growing success of for-profit higher education. A single-minded concern with profits, unimpeded by faculty committees, enabled for-profit schools to innovate more quickly, specifically, to adopt online learning, giving them a competitive advantage. In response, colleges added sustaining innovations and various amenities to differentiate themselves. This helped many public and non-profit colleges to recruit and retain their conventional students, thereby mitigating their need to expand access to populations historically under-served by traditional-higher education. However, these sustaining innovations added costs and, in many cases, the under-served, marginal groups saw these innovations as un-needed or a distraction. Enter the role of for-profits in providing access for these students and bringing a lower quality product or service to meet, and to many appeared to meet, their educational needs.

Disruptive innovation attracted people shut out from traditional education. In response, many traditional colleges simply ignored the resurgence of for-profit higher education because their students were not interested in what the for-profits were providing. But over time, efforts by *some* for-profits to innovate, improve quality, and market themselves threatened many low-prestige public and nonprofit institutions. In an environment where students of all ages face challenges, balancing the cost of college with work and personal commitments, even students at traditional institutions began to find appeal in what the for-profits offered.

During the early 2000s, for-profit schools prospered by providing educational access to student who were neglected by traditional colleges: people with low incomes, minorities, the unemployed, and single mothers. As **Error! Reference source not found.** 1 indicates, Fall enrollment growth in for-profit schools increased from 1.55% of all students enrolled in 1990 to 9.07% in 2009. Today, there are 3000 for-profit universities, 13 corporations own 40%. Half offer Bachelor Degrees as opposed to ten percent in 1990. (Wilson, 2010). The degrees offered are in the so-called professional areas including business management, technology, education, nursing, and so on. The largest corporation is the Apollo group, which currently has almost 500,000 students on 200 campuses. “Unlike traditional colleges, Phoenix never turns away students because classes are full. It simply adds more, depending on demand." (Wilson, 2010, 5) Furthermore, it schedules classes at times convenient for students, 85% of whom are employed.

Table 1: Fall Enrollment in Degree-Granting Institutions

Year	Average of Public	Average of Private Not-for-profit	Average of For Profit	Average of Total Number of Students	Average of Percentage of Total Students Attending for-Profit Schools
1990	10,844,717	2,760,227	213,693	13,818,637	1.55%
1991	11,309,563	2,819,041	230,349	14,358,953	1.60%
1992	11,384,567	2,872,523	230,269	14,487,359	1.59%
1993	11,189,088	2,888,897	226,818	14,304,803	1.59%
1994	11,133,680	2,910,107	235,003	14,278,790	1.65%
1995	11,092,374	2,929,044	240,363	14,261,781	1.69%
1996	11,120,499	2,942,556	304,465	14,367,520	2.12%
1997	11,196,119	2,977,614	328,601	14,502,334	2.27%
1998	11,137,769	3,004,925	364,273	14,506,967	2.51%
1999	11,309,399	3,051,626	430,199	14,791,224	2.91%
2000	11,752,786	3,109,419	450,084	15,312,289	2.94%
2001	12,233,156	3,167,330	527,501	15,927,987	3.31%
2002	12,751,993	3,265,476	594,242	16,611,711	3.58%
2003	12,858,698	3,341,048	711,735	16,911,481	4.21%
2004	12,980,112	3,411,685	880,247	17,272,044	5.10%
2005	13,021,834	3,454,692	1,010,949	17,487,475	5.78%
2006	13,180,133	3,512,866	1,065,871	17,758,870	6.00%
2007	13,490,780	3,571,150	1,186,198	18,248,128	6.50%
2008	13,972,153	3,661,519	1,469,142	19,102,814	7.69%
2009	14,810,642	3,765,083	1,851,986	20,427,711	9.07%

Given the shift in costs to students, the Federal government expanded the student-loan program, creating opportunities for businesses to profit. During the 1990s, Congress passed the 90-10 Rule to ensure that for-profits schools did not exclusively fund themselves with federal dollars. The 90-10 Rule limits the amount of Title IV funds a for-profit school can receive as a percentage of their revenue, attempting to weed out low-quality schools. In 2014, The U.S.

Department of Education reported that 27 for-profit colleges exceeded the 90-10 cap. However, a report that same year from the Center for Investigative Reporting identified an additional 133 for-profit colleges who would have failed the 90-10 Rule if educational benefits to veterans would have been included. Efforts so far to close this loophole in the 90-10 Rule have so far been politically thwarted. The Harkin Report, which detailed the predatory and wasteful practices of 30 large for-profit schools, recommended changes in the allocation of GI Bill monies but has failed to gain support in Congress.

As indicated by Table 2, over 35% of for-profit schools were dependent on over 80% of their revenue from Federal funding for 2013-2014 academic year; that number rises to over 78% of the schools dependent on Federal Funding for over 60% of their revenue.

Table 2: Percentage of Revenues of For-Profit Schools Dependent on Title IV and Non-Title IV Funding

Revenue Attestation Percentage	2014-2013	2013-2012	2012-2011	2011-2010	2010-2009
0 ≤ 20	1.85%	1.59%	1.70%	2.25%	2.57%
20 ≤ 40	4.83%	3.64%	3.60%	4.65%	4.53%
40 ≤ 60	15.00%	14.63%	14.15%	14.94%	13.43%
60 ≤ 80	43.25%	42.30%	40.06%	41.67%	42.85%
80 ≤ 90	34.36%	36.45%	39.09%	35.75%	36.06%
90 ≤ 100	0.72%	1.39%	1.41%	0.73%	0.57%

Source: (Federal Student Aid, 2016a)

The Harkin report further found that “Unlike traditional non-profit and public colleges, virtually all of the revenues of for-profit colleges come directly from taxpayers, and significant portions of their expenses are dedicated to marketing and recruiting and to profit” (Majority Committee Staff Report and Accompanying Minority Committee Staff Views, 2012). The report attributes the success of for-profits schools to aggressive sales tactics. For-profit schools spent almost 23% of revenues on marketing, exceeding the amounts spent on instruction. The report suggests that aggressiveness of for-profits schools is unmatched by government oversight.

Recruiters target non-traditional students unfamiliar with traditional education, students having personal problems, and veterans. The report further found that 54 percent of students dropped out without a degree of certificate out of a student population of almost 600,000 during the 2008-09 academic year. The president of AAUP Cary Nelson characterizes for profit universities as "the blob" eating everything it encounters.

Table 3: Federal Grants and Loans

Years	Foreign	Private	For Profit	Public	Total
2010-2011	$970,606,638	$39,311,620,098	$32,647,537,963	$69,090,815,661	$142,020,580,360
2011-2012	$1,067,546,008	$39,943,138,892	$28,381,926,193	$70,314,139,268	$139,706,750,360
2012-2013	$1,070,213,642	$38,802,908,432	$25,844,592,508	$68,159,148,656	$133,876,863,238
2013-2014	$1,152,058,470	$40,049,412,728	$23,401,925,231	$67,124,076,946	$131,727,473,375
2014-2015	$1,196,855,222	$38,856,241,146	$21,047,272,912	$65,206,407,838	$126,306,777,118
2015-2016	$456,887,659	$17,510,475,765	$6,995,555,202	$30,891,877,903	$55,854,796,529
Total	$5,914,167,639	$214,473,797,061	$138,318,810,010	$370,786,466,271	$729,493,240,981
Percent of Total Funds Allocated	0.8%	29.4%	19.0%	50.8%	100.0%

Source: (Federal Student Aid, 2016a), https://studentaid.ed.gov/sa/about/data-center/student/title-iv

Many students never graduated, leaving them with high levels of student-loan debt, loan defaults, and very often a failure to secure jobs in their area of study. In response to these outcomes and to the growth in government-guaranteed student debt, the Obama administration established new rules related to "gainful employment," making it more difficult for for-profit institutions to access federal funding--the principal source of revenue for this sector. In September 2016, based on a recommendation by a federal panel that oversees accrediting organizations (the National Advisory Committee on Institutional Quality and Integrity), the Department of Education withdrew its recognition of the nation's largest accreditor of for-profit institutions, leaving hundreds of these schools without an accreditor, jeopardizing access to federal-financial aid for approximately 600,000 students. The panel's recommendation is currently on appeal.

A Change In Policy?

What policies as a society can we enact to help students acquire an education? In the current political climate, further socialization of the costs of higher education is unlikely. Nevertheless, the $1.3 trillion of student debt will limit consumer spending, imperil the financial situation of many former students, and likely lead to slower growth. Continued efforts to shift the costs of education to students will further deny them access to the community's store of knowledge, perpetuating inequality and aggravating class distinctions.

In thinking about more practical reforms that might help to mitigate the low-graduation rates of many for-profit schools, we turn to a sector that parallels higher education. Both sectors include public, non-profit, and for-profit organizations; have a history of price inflation; engage in rampant price discrimination; have similar hierarchies of stakeholders; are authorized through a federal agency to work with accreditors to disburse student aid funds or Medicaid or Medicare (CMS) reimbursements; encounter students or patients with different propensities for learning or healing; and these consumers are required to trust they're receiving high-quality services.

But one very significant difference lies in the oversight and regulatory structure of these sectors. As of September 2016, the U.S. Department of Education recognized 51 accrediting commissions covering public, non-profit and for-profit colleges (Accreditation, 2016). Healthcare on the other hand, has one primary accreditor--The Joint Commission which accredits nearly 21,000 healthcare organizations and programs and was first granted "deemed authority" by CMS in 1965.[4] As Susan Dynarski, a professor of education, public policy and economics, at the University of Michigan notes, "In the hospital industry, there are at least clear standards that all institutions, including for-profits, must follow. Regulation and oversight of colleges is far weaker than this" (Dynarski, 2016).

In an environment where students are increasingly responsible for funding their educations, and where the federal government is often paying for substandard education, protecting both students and taxpayers requires a new system of regulatory oversight that promotes more transparency and accountability, more simple and consistent standards for evaluating educational quality, and less opportunity for fraud. Dynarski further notes that students, "take on much of the risk themselves and overwhelmingly bear the consequences. Millions of students have left for-profit colleges with few skills but major debts, their financial lives ruined."

Yes, easier fixes like revisiting the 90-10 rule of the Higher Education Act, and eliminating its loopholes would help. But our current regulatory structure with multiple accrediting organizations does nothing more than create opacity, inconsistency, opportunities for fraud, damaging both students and taxpayers. Fixing this broken accreditation system is imperative. Moving to a single or significantly fewer number of authorized accreditors is the only way to insure systemically that better and more consistent measurements of student learning are developed; that the metrics of quality are more consistent across all sectors of higher

[4] The Joint Commission accredits almost 80% of the 5,627 registered U.S. hospitals. Most states with the exceptions of Oklahoma, Pennsylvania, and Wisconsin require Joint Commission accreditation as a condition for licensing and Medicaid reimbursement. While The Joint Commission doesn't have a complete monopoly on healthcare accreditation, it does set a dominant and consistent standard with which all other accrediting organizations fall in line.

education; and that all institutions are accountable to the students they serve and living up to the hopes of what education can provide.

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