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Subsidies, Student Debt, and For-Profit Schools — By: Stephen Spruiell

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My [homepage piece today](#) is on the subject of for-profit colleges -- think DeVry, University of Phoenix, etc. -- and the Obama administration's growing desire to crack down on them.

Let me just clarify something that might not come through in my piece: I have a problem with the way these schools are built to profit from government higher-ed subsidies. But I also have a problem with the way in which the Department of Education is cracking down on them. As usual, the government is attacking a problem it created with the worst possible solution. In the process, it is threatening to kill the value that the for-profit sector has actually brought to the table.

Anyone who has spent considerable time studying government subsidy programs can attest that 1) they rarely work well, but 2) they *really* don't work at all without some mix of price/supply controls. If you subsidize something, you get more of it, and that comes with all sorts of unpleasant supply/demand side effects. For decades the government has subsidized *crop production*, and that policy has required a raft of supply controls and price supports to stabilize the supply/demand equation (and the government never fully got it right). For decades we subsidized *housing* -- no need to elaborate. And for decades we have subsidized *demand for higher education*, with especially large increases in those subsidies over the last few years. And, unsurprisingly, those increases have been met with increased enrollment where possible and, where not possible, large tuition increases.

Simply put, we reached the point years ago at which the traditional colleges and universities could no longer accommodate the demand -- that's where for-profit schools stepped into the picture. And, because we have increased higher-ed subsidies so dramatically, both traditional and for-profit schools have increased tuition to capture their share of the rents. [Tuition inflation](#) routinely outpaces other measures of inflation. Tuitions at for-profit schools are particularly high.

Rather than curb the subsidies -- a move that by itself would reduce the cost of postsecondary education -- Obama's DOE would prefer to use a price control, and boy, have they come up with a doozy. (You can read more about it in [my piece](#), and even more about it [here](#).) With few exceptions, it would apply only to the for-profit schools, and the most likely outcome would not be the across-the-

board tuition reductions the administration wants, but the elimination of programs that are popular with students and meet market needs. Talk about unintended consequences: Flexibility and market-responsiveness in program offerings are among the best things about the for-profits.

The worst thing about them is their rent-seeking. But most universities, including private non-profits and traditional state colleges (via out-of-state tuition) engage in this behavior.* Yet the DOE only wants to crack down on the for-profits. Liberals argue that this is because the for-profits engage in fraudulent practices, telling students their degrees will be more useful than they really are. This doesn't pass the laugh test: No greater fraud has ever been perpetrated on college students than the poststructuralism fad that ruined humanities departments across the country. Where can all the kids whose minds (and employment prospects outside of academia) were ruined by overexposure to Foucault and Derrida go to get their \$100,000 back?

Some people are arguing that the for-profits' recruitment policies have encouraged a lot of students to take out federal loans and go to college even though their ability to repay is in doubt. (Comparisons to the subprime-mortgage debacle have been made.) That may be true. But this wouldn't be a big problem if the loans lacked implicit or explicit government backing: For obvious reasons, market institutions would be more reluctant to lend to bad credit risks.

Will a wave of student defaults be the next shoe to drop in the ongoing financial crisis? I think the odds are better than even. But if it happens, let's not pretend the for-profits made this mess. This is another government-created disaster-in-the-making, resulting from policies that started out with good intentions and ended on a road to hell.

* Studies have found that increases in Pell aid are matched almost dollar for dollar by tuition increases for students at private non-profit and out-of-state students at public universities, but not for in-state students. This is because state schools have a mission to educate in-state students and are kept on a short leash by their state legislatures. Community colleges have similar characteristics. Neither state schools nor community colleges can accommodate the recent increases in demand for postsecondary education that are tied partially to large increases in subsidies. I say "partially" because the recession has undoubtedly also played a role, as many people who have been laid off are seeking to make themselves more employable. But government aid, for better or worse, has given them the ability to do that, and most are seeking educations at the for-profit career schools.