

In Defense of For-Profit Colleges

They provide valuable training even as public university systems are slashing their budgets.

By HENRY BIENEN

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A diverse group of critics has recently been sounding alarms about for-profit colleges. The naysayers assert that for-profits have low graduation rates, poor career placement, excessive profit margins, and high default rates on loans. Sen. Tom Harkin (D., Iowa) and financier Steven Eisman have even compared the growth of for-profits to the subprime mortgage bubble.

What are the facts?

As of 2008, the for-profit sector, which has grown rapidly over the last decade, included 9% of students enrolled in American colleges and universities. For-profit colleges run the gamut from vocational schools that give certificates for culinary or beautician training to schools that grant bachelor's, nursing, medical and master of business degrees. Some of these schools have regional accreditation (the highest type) from the same organizations that accredit elite public and private universities.

The graduation rates of some for-profit institutions are well above 50%—as high or higher than those of many four-year public colleges, let alone community colleges and nonselective public and private colleges (which often have rates below 50%).

All schools' graduation rates are driven by selectivity and demographics (including the income, age, race and prior education of students and the education level of their parents). Students who attend for-profits typically work during the day and go to school at night. Often they matriculate online. They may be single mothers. They borrow not just for tuition but for general expenses. And they do have relatively high default rates. Their average two-year default rate is 11%. For public nonprofits the rate is 5.7% and for private nonprofits it is 3.7%.

Like graduation rates, default rates are driven by demographics. At for-profit colleges, 39% of degrees are conferred to minorities who tend to be, on average, in tougher financial shape and more likely to be the first in their families to attend college. At public nonprofits, 20% of graduates are minorities. In addition, 76% of students at for-profit colleges are financially independent, meaning their parents do not support them. But colleges don't control student borrowing, so they don't control how much debt students accrue.

As for career placement, more than 90% of graduates of Rasmussen College, with which I am associated, are currently employed, despite the recession. Across for-profits, placement rates for students who get degrees in medical technology, business administration, information technology and design are all high.

Many students at for-profits are indeed at risk of not completing their degrees, as increasing access and opportunity do not always lead to high graduation rates. Education officials and critics should realize that increased access is likely to mean strains on graduation rates. But that is not an argument against offering nontraditional students an education that would otherwise be beyond reach.

For-profit colleges are also leaders in online education, which President Barack Obama and the Department of Education have correctly said will be critical in the 21st century. Many nonprofits still do not have the expertise or financial resources to develop, deploy and support effective online programs. This has led some to establish online-education partnerships with for-profit institutions.

It is true that students at for-profits use federal Pell Grants and Title IV loans to help pay tuition. But for-profits—which don't have access to endowments built up by decades of private donations—use private capital for construction, don't use state or federal funds for their operating budgets, and don't use taxpayer funds to hold down tuition rates (as every state university does). Those who argue that for-profits drain public resources are ignoring parts of the story.

Of course, state and federal governments should insist that for-profits and nonprofits alike be transparent with regard to student debt, graduation rates and job placement. At present, the data are incomplete and imperfect.

They can also be misleading.

For example, when parents and students decide to pay or borrow for education, they weigh the cost against a lifetime of future earnings. But snapshots of earnings immediately after graduation are poor predictors of lifetime earnings, especially in the present labor market. It is hard enough to know the income of graduates of elite universities, and all the more difficult to get such information from students who study online. Both sectors should do better at reporting.

Nonprofit public universities such as the University of California are cutting access because of cost pressures, and many students are now failing to find suitable places in state and community colleges. For-profit colleges offer these students paths to better careers and higher earnings. It is to no one's advantage to thwart a growing sector that is training underserved people.

Mr. Bienen is vice chairman of the board of Rasmussen Inc., a for-profit college, and president emeritus of Northwestern University.