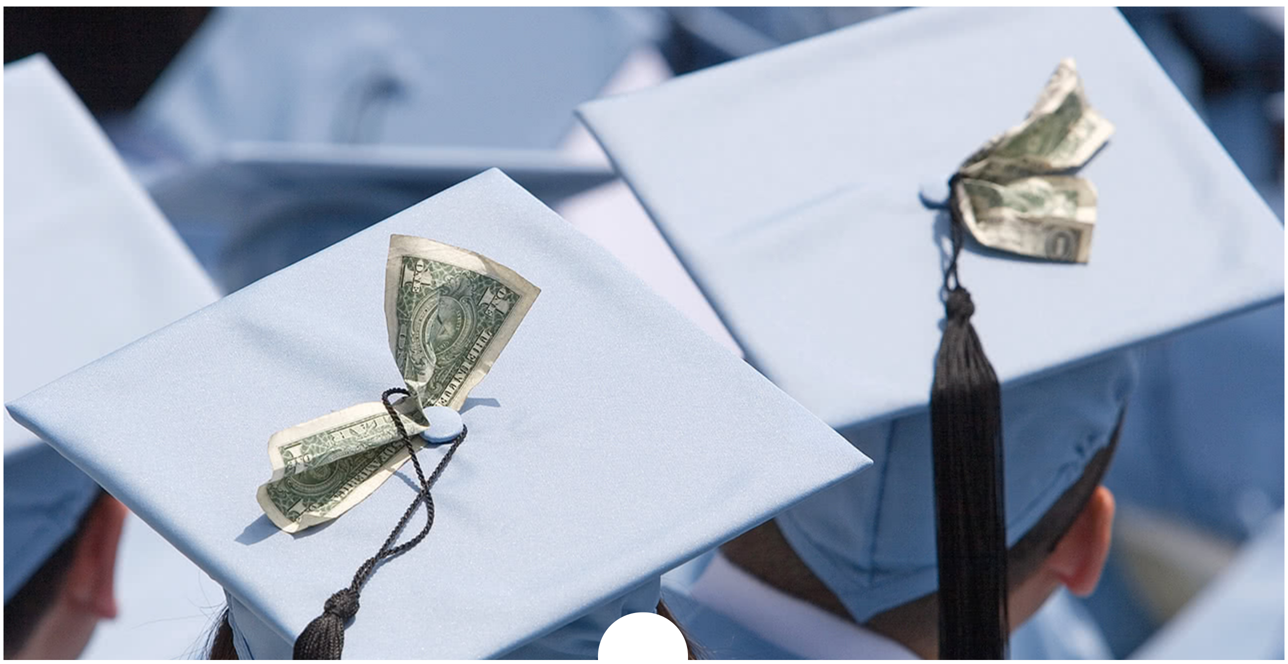
Decline and fall

For-profit colleges in America relaunch themselves as non-profits

Betsy DeVos, Donald Trump's education secretary, may not be able to rescue them



for sham television-repair courses. After receiving the free television that came with enrolment, they would quit—while schools billed Uncle Sam for the entire course. Low-quality "proprietary schools" tried to cajole Vietnam veterans into enrolling through, in the words of the Federal Trade Commission, "deceptive advertising, high pressure sale tactics and misrepresentations of course difficulty and content". George H.W. Bush signed legislation in 1992 culling thousands of such outfits. Every few decades, newspaper exposés would prompt irate congressmen or presidents to weed out fraudulent for-profit programmes—only to discover later that they had simply sprung up elsewhere.

Barack Obama's administration was the latest to give this a try. His education department finalised two important regulations. The first would cut off federal funding to institutions which do not prepare students for "gainful employment"—defined as earnings increases large enough to cover their debts. The second, called the "borrower defence" rule, would forgive student-loan debt for students deceived by providers. Betsy DeVos, President Donald Trump's education secretary, has delayed both regulations and has pledged to rewrite them. She has taken special umbrage at the borrower-defence rule, saying "under the previous rules, all one had to do was raise his or her hands to be entitled to so-called free money". Not a single application to cancel a loan has been approved since the new management moved in, causing a backlog of 65,000. "They seem to be doing everything they can to prevent enforcement," says Bob Shireman, a fellow at the Century Foundation and a former education appointee in Mr Obama's administration.

Grisham's law

Mrs DeVos's policy shift is particularly mystifying, because Republicans were once among the strongest critics of for-profit education. William Bennett, Ronald Reagan's education secretary, led the charge against for-profit schools. "The kids are left without an education and with no job, and the taxpayer ends up holding the bag for a kid who gets cheated," he said at the time. But ever since for-profit schools became billion-dollar enterprises, partisan allegiances have switched. Mrs DeVos, who was formerly best known for using her family's fortune to promote school-choice schemes, is said to be frustrated by her inability to influence high-school policy. But the secretary of education does have a lot of power over what happens after high school.

The rise of for-profit education began 30 years ago. Until then, for-profit colleges were mostly small shops, teaching such trades as cosmetology and plumbing. But after listing on stockmarkets and raising capital from shareholders, large for-profit college chains emerged and began expanding, attracting mostly poor students with slick advertisements and devoted recruiters. Between 2000 and 2010 their enrolments more than quadrupled. Publicly listed colleges devoted nearly a quarter of their revenues to marketing and recruiting—more than on educating students. Their bosses commanded salaries unheard of in education: Bridgepoint Education paid its chief executive $20m in 2009. “For a long time, for-profit colleges were the darlings of Wall Street,” says Ben Miller, a senior policy adviser at the Department of Education (DoE) under Mr Obama. ITT Tech, one of the country’s largest for-profit educators, returned a handsome 37.1% profit margin in 2009. Last year, the company shut its doors after its aggressive recruiting practices and its students’ lacklustre record in the job market prompted the DoE to turn off the federal spigot.

There is, of course, nothing wrong with profiting from the provision of a valuable service. But labour-market outcomes suggest this is not what has been going on. Only 23% of students at for-profits finish their degrees, but nearly all accumulate lots of debt. Tuition rates were often set to maximise federal loan dollars, the principal source of revenues. An investigation by Congress showed that for-profits were, at their height, hoovering up 25% of DoE student-aid funds and 37% of post-9/11 GI Bill benefits, although just 10% of college students attended them. The best study so far, examining the tax returns of 1.4m students, found that “for-profit education does not have a meaningful private return to the student” and “the majority of schools appear to have negligible average earnings effects”. Default rates are high, and worse for minority students. Recent statistics show that 75% of black students who had dropped out of for-profit colleges had defaulted on their loans 12 years later.

Even if the DoE were to succeed in erasing the gainful-employment rule, for-profits are unlikely to come roaring back because their reputations are sullied. John Grisham, an author of legal thrillers, has even chosen “a third-tier, for-profit law school” as the villain in his latest work. Since peaking in 2010, for-profit enrolments have plummeted by 33%. Even if federal enforcement were to slow, Democratic state attorneys-general—an ambitious bunch who realise the unpopularity of such institutions—are unlikely to let up. Already, 18 of them have sued Mrs DeVos for delaying the gainful-employment rule. America’s continuing economic growth also hurts the industry, since for-profits are most in demand during recessions, when less-qualified workers’ worries about their credentials increase.

Surviving for-profit firms are already shifting tactics: some are focusing on graduate education, where accusations of predatory practice have been less common. For-profit colleges now award nearly 10% of masters degrees in America —and a whopping 40% of business doctorates. Others are trying to convert themselves into non-profits. Purdue University, a well-regarded public college in Indiana, has bought the for-profit Kaplan University in the hope of launching an online school. Some acquisitions are more baffling, though. The Dream Centre Foundation, a small non-profit associated with the Pentecostal church, recently bought schools owned by the Education Management Corporation, which saw the value of its stock fall by 99% from its peak and its bonds rated as junk, after a parade of mis-selling scandals and investigations by federal and state governments. Critics describe such moves as a rebranding exercise designed to dodge regulation. If the past is a guide, those fears are likely to go unheeded—at least until the next scandal.

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