

# Chapter 1

## The Contemporary Provision of For-Profit Higher Education

### Mapping the Competitive Market

David W. Breneman, Brian Pusser, and Sarah E. Turner

#### INTRODUCTION

It has become an article of faith in popular accounts that the next decade will be a period in higher education defined by significant competitive gains by for-profit providers of degrees, educational services, and products (Odening and Letsinger, 2003; Newman and Couturier, 2001; Ruch, 2001). As one sign of the rapid pace of change, the growth in the number and the nature of contemporary for-profit providers, in the United States in particular, was described by one experienced observer as “shocking” (Levine, 1997). Reports from market analysts have evoked images of an imminent collision between efficient, technologically innovative, well-capitalized edu-corporations, and a host of tradition-bound, inefficient, revenue-challenged, postsecondary institutions (Odening and Letsinger, 2003; Farrington, 1999). Inherent in these presentations is the presumption that the competitive environment in higher education is changing rapidly and that colleges and universities in the public and nonprofit sectors are inefficient and failing to meet market demands.

The entrance of for-profit providers suggests the potential for dramatic changes in the market for higher education, affecting the range of programs available to potential students and the costs associated with different courses of study. The nonprofit higher education sector in the United States alone encompasses over 3,900 institutions, some 14 million students, and annual expenditures of over \$200 billion. Despite the importance of the topic and the initial headlines, to date little empirical research has been devoted to a documentation of the changes in the number, distribution, and characteristics of for-profit education providers over the past three decades.

This chapter begins with a discussion of the historical evolution and variation in the organizational form of institutions in higher education. The second section presents an overview of the current demographics in the market for higher education, with particular focus on the size of the for-profit sector. The third section turns to the analytic framework and discusses the shifts in supply and demand that determine equilibrium in the market for higher education as well as the growth opportunities that the for-profit institutions experience. The final section provides a discussion of the public policy implications associated with the rise in the for-profit provision in the rise in higher education services. Data are drawn from Integrated Postsecondary Education Data Systems (IPEDS) *Institutional Characteristics*, and from over twenty semi-structured interviews conducted in 1999 with institutional leaders in the for-profit and nonprofit higher education sectors, as well as venture capitalists and education industry analysts.

## CONTEXT AND HISTORY

The sustained dominance of the public and private nonprofit institutions in higher education throughout much of the twentieth century suggests that these institutional structures hold advantages beyond historical precedent (Goldin and Katz, 1999; Clark, 1983). One argument for the extensive role of nonprofits in the delivery of higher education concerns the very nature of the product. Unlike many commodities, which are well-defined and singular in consumption, the benefits of a higher education experience may be difficult to measure with precision in the short term and may also provide benefits to society beyond the gains to the individual student. To the extent that higher education is characterized by these conditions—"information asymmetries" and the "public goods characteristics"—there is a potential role for nonprofit provision.<sup>1</sup>

"Higher education" is not a single output but a range of different educational products. Degree programs vary markedly along a number of dimensions including how they are subsidized, the extent to which the course of study provides general or job-specific skills, the selectivity of admission requirements, and the mode of instructional delivery. As such, it is not surprising that the distribution of organizational forms varies appreciably across the range of educational providers.

History has played a significant role in the institutional evolution of the provision of higher education. Both technology and public policy have shaped the degree to which education has been provided by nonprofit or for-profit institutions, as well as the extent to which higher education has been financed by public or individual sources.

Well into the nineteenth century proprietary education, though often not degree granting, was a source of basic skills in areas such as teaching, medicine, law, and accounting that enabled individuals to make the transition to professional employment (Goldin and Katz, 1998; Honick, 1995; Geiger, 1986; Veysey, 1965). Rapid industrial growth at the turn of the century led to a proliferation of commercial schools that offered training in a number of new technologies, including the typewriter and stenographic machines (Honick, 1995). Yet, the latter portion of this period was less kind to proprietary schools, as the Progressive political movement and advocates of public vocational training placed increased constraints on the provision of for-profit education (Honick, 1995; Trivett, 1974). The release of the Flexner report in 1910 severely curtailed for-profit medical education programs and led to further calls for regulation and oversight of the entire proprietary sector.

Concurrently, the basic dynamics of the production process of higher education shifted in the early decades of the twentieth century with the advent of the comprehensive research university (Goldin and Katz, 1998). These institutions became characterized by economies of scale and scope, brought about by substantial changes in the natural sciences and in the public policies furthering the application of academic science in local industry. These emerging research universities operated with an increasing division of labor and degree of specialization. At the same time, complementarities in production emerged among undergraduate education, graduate training, and basic research. Combining these activities under one umbrella proved to be more efficient than the independent production of each education service (Paulson, 2002; Ehrenberg, 2000; Lowen, 1997). These comprehensive research universities were also predominantly nonprofit and public institutions. The entrance of the research universities ushered in an era of collective public investment in higher education, accompanied by increasing public funding for, and public oversight of, higher education (Goldin and Katz, 1998; Veysey, 1965).

The period from 1945 to 1975 is often cited as the “golden era” of American higher education. That phrase generally refers to the expansion in enrollments and expenditures at existing public and private nonprofit institutions (Clark, 1983, 1971; Kerr, 2003, 1991). As part of a general expansion of the public support for educational programs beginning with the *Sputnik* and continuing through the Great Society initiatives, this period represented a golden age of public funding for higher education; furthermore, the federal government provided substantial infrastructure through research grants to universities and financial aid to students (Brinkman and Leslie, 1986; Bowen, 1968). This period also encompassed the emergence and growth of a significant public policy debate over the appropriate forms of university adaptation and the balance of public and private funding in the provision of higher education (Pusser, 2002; Tierney, 1999; Calhoun, 1998).

## The Resurgence of For-Profit Providers

One of the more significant events in the period was the passage of the Higher Education Act (HEA) of 1972. HEA augmented the amount and types of student loans and significantly increased the amount of direct financial awards to students, primarily through Basic Educational Opportunity Grants, subsequently renamed as Pell grants. HEA offered key benefits to for-profit educational providers as several types of for-profit schools and their students were made eligible for federal financial aid. Given the portability of Pell grants, HEA also shifted control of the largest share of federal financial aid dollars from institutions to individuals.<sup>2</sup>

More recently, a number of market factors have driven a substantial transformation in the for-profit sector and strong projections for growth into the foreseeable future. On the supply side, investments in new technology and improved organizational practices may enable for-profit providers to deliver a variety of higher education services at lower costs than those provided by public and nonprofit providers. On the demand side, the rising return to college training, combined with the increasing size of the college-age population, changed the opportunities for entry among for-profit providers.

## DEMOGRAPHICS OF THE FOR-PROFIT HIGHER EDUCATION SECTOR

A major problem in conceptualizing specific changes in the for-profit degree-granting sector is the conflation of statistics and reports on the growth of the overall “education industry” in the United States with data on the growth in the specific arena of degree-granting, for-profit education. The total education industry is estimated at about \$826.6 billion in 2003. Higher education expenditures are generally estimated at about \$315.4 billion in 2003, for an enrollment of about 17.4 million students (U.S. Department of Education, 2005). The corporate education and training market comprises another \$75 billion, and is expected to grow more rapidly than any other segment (Altbach, 2001). The for-profit degree granting industry is, to this point, significantly smaller.

The three degree-granting institutions most cited in contemporary accounts, the University of Phoenix, DeVry Inc., and Strayer Education Inc., together account for well over 100,000 students and over \$1 billion in sales. The largest provider, Phoenix, has seven times as many students as the third largest provider, Strayer. These are significant numbers—particularly in relation to the average scale of long-established institutions in the public and non-profit sectors—but the overall scale of the degree-granting proprietary sector currently remains relatively small.

TABLE 1.1  
Title IV Postsecondary Institutions by Control, Academic Year 2002–03

<i>Institution Type</i>	<i>N</i>		
TOTAL	6,354		
For-profit	2,382		
Nonprofit Private	1,921		
Nonprofit Public	2,051		
		<i>Degree Granting</i>	<i>Non-Degree Granting</i>
4-year		4-year	
For-profit	297	For-profit	3
Nonprofit Private	1,538	Nonprofit Private	20
Nonprofit Public	631	Nonprofit Public	1
2-year		2-year	
For-profit	494	For-profit	270
Nonprofit Private	127	Nonprofit Private	124
Nonprofit Public	1,081	Nonprofit Public	74
		Less than 2 year	
		For-profit	1,318
		Nonprofit Private	112
		Nonprofit Public	264

Source: U.S. Department of Education, National Center for Education Statistics. *Integrated Postsecondary Education Data System (IPEDS): Institutional Characteristics*, Fall 2002.

The basic demographics of the for-profit sector of the higher education market are not well documented. The empirical analysis of the sector is complicated by the observation that definitions and terminology developed for quantifying various types of provision of higher education in earlier decades may be insufficient to capture the myriad new forms in this emerging sector.<sup>3</sup>

It may come as something of a revelation that there are currently nearly as many for-profit postsecondary institutions as there are nonprofit postsecondary institutions.<sup>4</sup> The 2002–3 census of institutions by the National Center for Education Statistics documents 2,382 for-profit institutions, 1,921 private nonprofit institutions, and 2,051 public nonprofit institutions (Table 1.1). Distinguishing institutions by degree-granting status and length of study changes the distribution markedly, with the 297 for-profit institutions accounting for about 12% of all postsecondary institutions with four-year courses of study. Of the total number of institutions identified as for-profit, the majority (55.3%) offer programs that are less than two years in length and award certificates rather than traditional degrees like the BA or MA (Table 1.1).

A focus on the institutional level in the for-profit sector among degree-granting institutions points to the substantial concentration in this market.

TABLE 1.2  
Trends in BA Degrees Awarded by Institution Type

	<i>Number of BA Degrees</i>				<i>Distribution of BA Degrees</i>		
	<i>Total</i>	<i>Proprietary</i>	<i>Private Nonprofit</i>	<i>Public Nonprofit</i>	<i>Proprietary</i>	<i>Private Nonprofit</i>	<i>Public Nonprofit</i>
Number of Institutions	3,353	200	1,660	1,493	6.0%	49.5%	44.5%
<i>Year</i>							
1970	786,478	641	266,238	519,599	0.1%	33.9%	66.1%
1975	926,575	968	288,569	637,038	0.1%	31.1%	68.8%
1980	939,113	1,939	309,980	627,194	0.2%	33.0%	66.8%
1982	962,715	2,419	320,892	639,404	0.3%	33.3%	66.4%
1985	988,874	4,778	328,838	655,258	0.5%	33.3%	66.3%
1990	1,058,197	5,510	351,349	701,338	0.5%	33.2%	66.3%
1995	1,166,901	7,744	377,996	781,161	0.7%	32.4%	66.9%
2000	1,237,875	20,062	406,958	810,855	1.6%	32.9%	65.5%
2001	1,244,171	23,032	408,701	812,438	1.9%	32.8%	65.3%
2002	1,291,900	26,398	424,322	841,180	2.1%	32.8%	65.1%

*Source:* Author's tabulations for 1970 to 1995 are based on institutional level data from the CASPAR compilation of the HEGIS/IPEDS *Earned Degrees Conferred Surveys* using institutions with identifiable classifications and for the years 2000 to 2002 from the National Center of Education Statistics IPEDS data.

Examination of data on degrees granted compiled through the CASPAR system indicates the extent to which providers differ markedly in their market representation. Baccalaureate level degrees awarded by for-profit institutions are a small share of the total, accounting for just 2% of degrees awarded, even in recent years (Table 1.2). While the growth rate in degrees awarded by public and private nonprofit institutions has been about 30% from 1982 to 2002, baccalaureate degrees awarded by for-profits increased by 10% (Table 1.2). The story is parallel but more exaggerated at the MA level. In the late 1960s and early 1970s, MA degree production was extremely small, representing awards by one or two institutions. In 1982, fewer than 400 MA degrees were awarded by for-profit institutions, relative to more than 300,000 degrees awarded by public and private nonprofits (Table 1.3). By 2002, MA degree production among the for-profits increased more than fortyfold to over 14,000 degrees; still, this number represents only 3% of the market for MA degrees (Table 1.3). It is reasonable to conclude that it is not the current level of participation of the for-profits in the degree-granting sector that is of policy interest. Rather, it is the growth potential of these institutions that merits consideration.

It is also useful to look at the degree of concentration within each degree-granting sector. While the overall categorization of institutions describes

TABLE 1.3  
Trends in MA Degrees Awarded by Institution Type

	<i>Number of MA Degrees</i>				<i>Distribution of MA Degrees</i>		
	<i>Total</i>	<i>Proprietary</i>	<i>Private Nonprofit</i>	<i>Public Nonprofit</i>	<i>Proprietary</i>	<i>Private Nonprofit</i>	<i>Public Nonprofit</i>
Number of Institutions	3,353	200	1,660	1,493	6.0%	49.5%	44.5%
<i>Year</i>							
1970	208,354	11	73,822	134,521	0.0%	35.4%	64.6%
1975	292,561	48	99,017	193,496	0.0%	33.8%	66.1%
1980	298,832	280	110,893	187,659	0.1%	37.1%	62.8%
1982	296,306	376	113,549	182,381	0.1%	38.3%	61.6%
1985	286,729	1,462	115,177	170,090	0.5%	40.2%	59.3%
1990	323,862	1,261	136,922	185,679	0.4%	42.3%	57.3%
1995	397,292	2,950	170,243	224,099	0.7%	42.9%	56.4%
2000	457,056	10,308	203,591	243,157	2.2%	44.6%	53.2%
2001	468,476	11,633	210,789	246,054	2.5%	45.0%	52.5%
2002	482,118	14,264	218,034	249,820	3.0%	45.2%	51.8%

*Source:* Author's tabulations for 1970 to 1995 are based on institutional level data from the CASPAR compilation of the HEGIS/IPEDS *Earned Degrees Conferred Surveys* using institutions with identifiable classifications and for the years 2000 to 2002 from the National Center of Education Statistics IPEDS data.

nearly 300 for-profit institutions as both degree granting and offering programs at least four years in length, far smaller numbers of institutions can be identified as actually awarding BA and MA level degrees. Thirty-six for-profit institutions awarded BA degrees over the three decades for which institutional data are available and only ten institutions awarded the MA degree. In the early years, two institutions—Armstrong College and Madison Junior College of Business—awarded all the BA degrees granted by the for-profit sector, with Armstrong also awarding all of the MA degrees until 1971. While these two institutions have not been part of recent expansion, the market remains similarly concentrated. At the baccalaureate level, six campuses of DeVry, Strayer, and the University of Phoenix award nearly 80% of the BA degrees awarded by the for-profit sector. The University of Phoenix and Keller School of Management have awarded more than 80% of the MA degrees in the for-profit sector since the mid-1980s.

## A FRAMEWORK FOR ANALYSIS

In framing the evolution to date of the for-profit sector and expectations for future growth, it is helpful to conceptualize the transformations in terms of

supply side and demand side factors. This framework is also useful for thinking about global for-profit providers, and the commodity value of higher education goods and services, as well as degrees (Altbach, 2001; Marginson and Considine, 2000). The supply side factors represent changes in the costs of inputs and innovations in the “technology” of higher education that affect profit opportunities. Changes in the labor market returns to higher education, and the demographics of the population, help determine the demand side of the market. Policy variables—including the level of student subsidies provided through financial aid programs, and barriers of regulation and accreditation also play an important role in the changing institutional compositions in the market for higher education.

### The Supply of For-Profit Education

Existing research on the supply of for-profit education, while not extensive, offers quite different perspectives on these questions. Interview data collected for this research reveal significant variation in perspectives on the future prospects for growth in for-profit provision in the United States and around the world. Institutional researchers in the United States capital markets and for-profit leaders suggest that the for-profits will be extremely successful in competing with the nonprofits. They cite increased availability of investment capital, excellent job placement records, freedom from traditional curricula, lower costs through increased productivity, economies of scale, and state-of-the-art technology as key assets of the for-profits. Taken together they see these factors enabling the for-profit degree-granting institutions to capture market share from the nonprofits, and their perceptions are in accord with those expressed by investment industry analysts and for-profit providers (Odening and Letsinger, 2003; Ruch, 2001; Ortmann, 2000).

Others, including a number of higher education institutional leaders who were interviewed, suggested that there will be a competitive struggle at the less prestigious institutions, but they saw little possibility that for-profits will be able to supply a product that can match the peer effects and signaling value of elite nonprofit higher education institutions. It is in those institutions with low prices and high capital requirements where the distinction between nonprofits and for-profits in their access to capital markets may prove to be most decisive. While both nonprofits and for-profits have access to capital through the bond markets, a key (and unresolved) question is whether costs of capital are identical through debt financing. For-profit institutions have direct access to equity markets while that source of capital can only be accessed by nonprofit institutions that work in partnership with for-profit entities or that create for-profit subsidiaries (Pusser, 2002). Michael A. Olivas (2004), Pusser (2002),



Slaughter and Leslie (1997) have argued that the competition will be more legal and political than economic, and that the exploitation of faculty knowledge and course materials as revenue sources can occur in both for-profit and nonprofit institutions.

With regard to costs, it has been argued that the different institutional norms of the for-profit institutions may enable these providers to reduce costs and achieve greater efficiencies than their peers in the nonprofit sector (Kirp, 2003; Marchese, 1998). The spiraling costs of higher education, at public and private institutions, and the increased burden on individual students, are creating enormous pressure on the nonprofit institutions in the United States and around the world (Duderstadt and Womack, 2003; Ehrenberg, 2000). This in turn suggests increasing competitive leverage in the for-profit sector if those institutions are able to utilize capital investments and lower wage scales to maintain lower overall operating costs, while highly structured labor markets and the institution of tenure limit the ability of nonprofit providers to adapt quickly to changes in student demand.<sup>5</sup>

On the pricing dimension, for-profit institutions may also be more likely to break with the traditional “one price” model of nonprofit higher education (Paulson, 2002; Rothschild and White, 1993). Challenges to the “one-price” model raise the following question, if the cost of educating a student in the physical sciences is higher than the cost of educating a student in the humanities, why do they pay the same tuition? Although differential fees for graduate and professional education are increasingly fundamental to the pricing structure of nonprofit higher education, the for-profit enterprises are likely to endeavor to expedite and extend the “unbundling” of higher education pricing, charging individual students at all levels, prices more closely matched with underlying costs.

Winston (1999) has suggested that barriers to the entry of for-profits in higher education may be inversely related to the degree of subsidy for each student at the institutional level. The degree of subsidy is, in effect, the amount of public subsidy (broadly defined) combined with donative contributions from private gifts and endowment income, devoted to subsidizing tuition prices. Accordingly, the high subsidies at the most selective liberal arts colleges and research universities create essentially insurmountable barriers to entry by for-profits. Similarly, Hansmann (1998) suggests that at the most selective level, where access is highly allocated and subsidies the highest, consumers are fundamentally interested in the attributes of their fellow students. That market, where higher education becomes an “associative good” is also virtually unobtainable by existing for-profit providers.

While research universities and liberal arts colleges provide undergraduate programs targeted to full-time residential students, much of the growth in enrollment in the last two decades has occurred among older, nontraditional

students (Seftor and Turner, 1999). The type of skills demanded by this new group of students is in some respects quite different from the broad, general training provided in the traditional four-year residential experience. As one education industry analyst has written, “these for-profit institutions are not offering education as much as they are offering careers” (Soffen, 1998).<sup>6</sup> The University of Phoenix, where nearly half of all students have their tuition subsidized by their current employers, has also been conceptualized as being in the business of “degree-granting corporate outsourcing” (Pusser and Doane, 2001). Nor is there evidence that the contemporary degree granting for-profits will overcome the traditional challenges to vocational training programs; the difficulty of transferring credits from vocational programs to more broadly oriented baccalaureate programs, the sensitivity of vocational education programs to declines in the rate of job creation, and the rapid obsolescence of vocational skills (Levin, 2001; Grubb, 1997, 1995).

### The Regulatory Environment

Starting a for-profit higher education institution is more challenging than entering many competitive markets because the product—the awarding of degrees—is heavily regulated by state and regional accrediting bodies. The various layers of regulation, and the variation in requirements for accreditation in different regions of the United States create significant barriers to entry in for-profit higher education (Eaton, 2003).

It has been noted that for-profit institutions seeking accreditation can be generally divided into three categories (Eaton, 2003). The first group consists of those institutions that are already accredited, as in the case of the University of Phoenix, and DeVry Inc. A second group includes those institutions that are not accredited and do not need accreditation. These are for the most part institutions that do not require Title IV financial aid.<sup>7</sup> These institutions, such as the IBM global campus and the Oracle corporate-training section, are primarily interested in providing employer-subsidized training and credentials. The third group consists of those organizations that seek rapid accreditation through partnerships with existing accredited institutions. Examples include the acquisition of Huron University by Whitman Incorporated.

There are two components of accreditation that are key to shaping the competitive environment in higher education. First, accreditation is central to the information asymmetries mentioned earlier. Accreditation sends a signal to potential students about the threshold quality of education provided. Second, accreditation is a prerequisite for student eligibility for federally sponsored financial aid under Title IV. Recently some analysts have suggested that large

and publicly traded for-profits, such as the University of Phoenix, may ultimately provide all of the loans and grants needed by their students from institutional funds generated in alliance with investment firms (Goldstein, 1999; Soffen, 1998). In that case, if it proved to be in their interests to do so, they might also be able to forego the traditional accreditation process, as is the case with many of the largest international for-profit education programs (Tooley, 1999).

### The Demand for Higher Education Services

The demand conditions faced by for-profit schools can be conceptualized as part of the more general demand for the training, skills, and credentials offered in higher education. The level and character of demand determine the particular implications for the for-profit sector. Overall, we can gauge the demand for higher education—and the services provided by higher education—in terms of the “prices,” the levels of subsidy, returns in the labor market, the demographics of the population of potential students, and state and local norms affecting access. Whether one regards the return to a BA degree or the return to a single credit, the evidence is incontrovertible that the relative return to postsecondary training has increased since the early 1990s. This transformation in the labor market is a significant determinant of the probability of for-profit entry (Pusser and Turner, 2004). However, for-profit enrollments are nevertheless sensitive to broader economic shifts (Tables 1.2 and 1.3).

Among high-achieving recent high school graduates, the demand for college training may be largely insensitive to changes in labor market conditions or college costs, as those students seek elite (and highly publicly subsidized) training and credentials. However, for older and nontraditional students, demand for training is likely to be quite sensitive to cost, as well as to labor market conditions. A further issue is the extent to which for-profit degree programs will appeal to the largest portion of the degree market, traditional-aged students seeking their first degrees. The ultimate growth of the for-profit degree-granting institutions may depend on their ability to tap into the demand for this group of students. At issue is whether students—and the labor market—view the educational products offered by these institutions as close substitutes to the options provided by traditional colleges and universities.

If for-profits can provide narrowly tailored skills that lead to specific, high-value job placement, older students in particular may prefer this otherwise “no-frills” approach to higher education to institutions providing a wide array of student services and recreational activities (Spurling and Tucker, 1997; Ruch, 2001). While survey data including the Higher Education Research

Institute's "American Freshman Survey," report an increase in the share of freshmen citing the desire to "be well-off financially" (Astin and Parrott, 2003), this trend may not predict an increase in enrollments at the for-profit institutions. The increasing returns to college quality documented by Hoxby (1997), Turner (1997), and Brewer, Eide, and Ehrenberg (1999) would suggest that the largest increases in demand among traditional undergraduate students would be among the most highly selective institutions in the nonprofit and public sectors. It is also the case that traditional nonprofit institutions, residential as well as nonresidential higher education providers, are increasingly seeking to enter the competition for adult student training and degree granting, through innovative degree programs, continuing education, and extension programs (Pusser and Doane, 2001).

A number of these issues are manifest in contemporary responses to the shortage of teachers. The problem of how to rapidly recruit, train, and retain able young people in the teaching force is a challenge that may benefit from market competition (Turner, 2000; Raphael and Tobias, 1997). Whether for-profit provision of teacher training will help to resolve the shortage and enhance the quality of entering teachers is an open question (Turner, 2000).

The proportion of students who will be served by the emerging for-profit sector, and at what cost, is an outcome determined by the intersection of supply and demand forces. Public policy initiatives such as the availability of federal financial aid also serve to influence this equilibrium. Changes in the availability and specifications of aid such as Pell grants or Stafford loans affect the budget constraints faced by students and their families. At issue is the extent to which these demand shifts are countered by increases in the prices charged by the colleges and universities, and whether the for-profit schools respond differently than the nonprofit institutions.

## IMPLICATIONS AND AREAS FOR FUTURE RESEARCH

As the data presented here demonstrate, for-profit providers currently represent a tiny fraction of the total degree-granting activity in American higher education. While the capital markets' excitement over the rapid growth in enrollments and the number of degrees granted by for-profits brings with it a very loud "buzz," that enthusiasm must be tempered to some degree by the very small base from which that growth is measured, and by the uncertain prospects for the continuation of the current rate of growth. There are, however, a number of key public policy issues that must be considered in light of the shifting economic, political, and social conditions that have given rise to the growth of for-profit participation in higher education.

Much of the concern over the growth of for-profit education reflects an historical debate over the risks associated with the private provision of an essential public good (Pusser, 2002; Weisbrod, 1998; Labaree, 1997; Veysey, 1965). Traditional arguments address the possibility of opportunistic behavior on the part of profit-seeking providers, the information asymmetry between consumers and providers, and the likelihood of uncertainty leading to underinvestment (James, 1998). More recently, public higher education has been seen as a key arena for the redress of historical inequities in access to education and leadership positions (Bowen and Bok, 1998; Kerr, 1994; Carnoy and Levin, 1985). It has been argued that the expansion of nonprofit education in the postwar period, and the concurrent implementation in those institutions of public policies on affirmative action and gender equity, have contributed significantly to increased access and diversity in higher education (Breneman, 2003; Hurtado and Navia, 1997). Hansmann (1998) predicts that increasing stratification and privatization will present significant challenges to efforts to maintain equity and efficiency in higher education. How competition from for-profit providers will affect the distribution of access to higher education is a key public policy question going forward.

The impact of for-profit providers on curricula in higher education has also been raised by several researchers (Paulson, 2002; Marginson and Considine, 2000; Raphael and Tobias, 1997; Rhoades and Slaughter, 1997). Raphael and Tobias examined the competition for the provision of teaching credentials in Arizona between the University of Phoenix and a number of nonprofit institutions. They found that while nonprofit providers had requirements that went beyond the state minimum for credentials, the University of Phoenix gained some competitive advantage by requiring only the state minimum of their students. A number of researchers have expressed concern that the determinant of curricular standards will increasingly be the political arena, where for-profit institutions are active financial contributors and nonprofits are prohibited from many aspects of lobbying (Aronowitz, 2000; Apple, 1999).

Initial research on "hybrid" institutional forms (Pusser, 2002) suggests that the increasing adoption of commercial behavior in nonprofit higher education institutions represents a potentially problematic convergence of nonprofit and for-profit forms. The long-term effect of the growth of auxiliary enterprises, credit and noncredit continuing education programs, industry-university partnerships, and the creation of for-profit subsidiaries of nonprofit institutions are not yet clear. A key challenge for this research is to explain what factors distinguish educational products in which convergence appears, from those in which increased stratification dominates the landscape such as the changing dimensions of baccalaureate programs in the national market (Pusser and Turner, 2004; Hoxby, 1998).

Another important area of future research addresses the extent to which competition among for-profit and nonprofit institutions leads to a socially optimal level and distribution of educational attainment. A key aspect of this question is whether increased competition promotes productive efficiency—or getting an output at the least cost—in the education sector.<sup>8</sup> It is often argued that the competitive effects associated with the entry of new producers improves efficiency. Yet, such claims may not translate to a mixed-market context in which the underlying product is difficult to observe and encompasses collective benefits as well as individual rewards. Finally, higher education in the United States has not historically been equitably distributed between various racial-ethnic and socioeconomic groups. While changing demographics and increased efforts to access high-quality higher education by traditionally underrepresented groups will be key factors in shaping future demand, the nature of that demand and how it will affect the provision of higher education is at this point unclear.

## NOTES

1. Hansmann (1987) provides a useful taxonomy of the potential economic motivations for the provision of goods and services. Social scientists disagree about the extent to which there is an appreciable “public goods” character to higher education. While it is widely argued that the provision of basic education (e.g., literacy skills) has a widespread public value in facilitating smoother social functioning (Labaree, 1997), and that higher education is a key component of State efforts to increase equity (Pusser and Ordorika, 2001; Carnoy and Levin, 1985) it is also argued that the returns to higher education may be largely confined to the individual. Still, one of the most compelling motivations for the subsidization of particular types of training in higher education (e.g., advanced scientific study) is that the social rate of return may well exceed the private return.

“Information problems” or “contract failures” are certainly a potential problem for students in higher education as it may well be difficult to ascertain if a student received the quantity or quality of education that he or she expected. While for-profit firms may have an incentive to take advantage of customers by providing an inferior education to increase their profits, the ability of agents of nonprofits to benefit personally through the provision of inferior services is limited by the nondistribution constraint.

2. An unanticipated consequence of that shift was a significant increase in the share of Pell grants allocated to students in for-profit institutions. For example, while only 7% of Pell revenue went to students at for-profit institutions at the start of the program in academic year 1973-1974, that share climbed to a peak near 30% in the late 1980s (McPherson and Schapiro, 1991, Table 2.5). Subsequent revelations of financial irregularities in awarding Pell grants and student loans (largely among trade schools) led to increased federal scrutiny and to a decline in the for-profits’ share of those funds.

3. For example, an “institution” is a frequent unit of analysis that is used to refer to a single governing body with a single campus, while in the for-profit sector, an institution may have many campus affiliations.

4. These include degree-granting and nondegree-granting programs and institutions.

5. Nonprofits, out of necessity, have already begun to find new efficiencies in order to remain price competitive with one another as state block funding decreases (Blustein, Goldstein, and Lozier, 1998; Duderstadt, 1998). Rhoades and Slaughter (1997) point to the increasing and widespread use of nontenured and part-time faculty as an example of rapid cost reductions that have been implemented in the nonprofit sector. Other studies of nonprofit universities point to the increasing concentration of institutional resources in those disciplines and in professional schools perceived to yield the most favorable labor market outcomes (Kirp, 2003; Marginson, 1997; Slaughter and Leslie, 1997).

6. Beyond changes and adaptations in curricular content, for-profit providers may be better positioned to utilize innovative technologies for delivering program content, primarily through the use of the Internet (Ruch, 2001; Graves, 1998; Marchese, 1998; Levine, 1997). The three largest for-profit degree-granting concerns, the University of Phoenix, DeVry and Strayer, generally make relatively little use of the Internet in their delivery, though Phoenix currently has about 15% of its population, nearly 15,000 students, pursuing degrees online. It is also important to note that each of these institutions uses a predominantly synchronous learning process with instructor-led classes offered at convenient times in relatively unconventional locations, including shopping malls and industrial parks that are easily accessed by their largely adult and employed student bodies. The increasing incidence of “virtual degrees” is not, however, limited to the for-profit sector, as indicated by the offerings of the nonprofit case of Penn State’s World Campus.

7. Title IV financial aid refers to federally subsidized loans and grants, including Pell grants.

8. There is of course little agreement on how best to define or measure the outputs of higher education (Levin, 2001).

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