Learning the right lessons

There's nothing wrong with profiting from education.

"UNTIL recently, I thought that there would never again be an opportunity to be involved with an industry as socially destructive as the subprime mortgage industry," said Steve Eisman, a hedge-fund manager who made a lot of money during the financial crisis by shorting bank shares, to Congress in June. "I was wrong. The for-profit education industry has proven equal to the task."

America's for-profit colleges are under fire (see article), and the Obama administration is preparing tough new regulations for them. Although recent scandals suggest higher education needs to be better regulated, discriminating against the for-profit sector could do wider damage.

Sub-prime learning

The notion that profit is too dirty a motive to be allowed in a business as fine as education is pervasive. Even Britain's Conservatives, determined though they are to introduce radical educational reforms, have drawn the line at allowing for-profit schools to get state funding. America has generally been more liberal; and, with the state and non-profit colleges cutting back, the for-profit sector has been doing startlingly well. In 2008-09 some 3,000 for-profit colleges educated 3.2m students—59% more than three years earlier, and 11.7% of all students.

Yet recent government reports suggest that some of these colleges have a troublingly familiar business model: flogging a low-grade product to people who are paying with subsidised government loans. The Department of Education reported that most students at many of these universities were defaulting on their loans. Similarly, an investigation by the Government Accountability Office found that even leading for-profit colleges such as Kaplan and the University of Phoenix had engaged in dodgy practices to recruit students and encourage them to borrow large sums to pay for their courses.

Among the most contentious of the new rules due to be introduced on November 1st is a "gainful employment" requirement that would make a course eligible for government loans only if enough current or past students are repaying their loans. The for-profit colleges maintain that they have high drop-out rates because their students are poorer than those in the state and non-profit sector, and that the gainful-employment rule will simply reduce access to higher education for poorer people. Don Graham, boss of the Washington Post Company, which owns Kaplan, has suggested that private colleges should be required to refund all fees if a student decides to drop out during his first term in order to "drive out all the bad actors" from the industry.

Constructive suggestions are rare in a debate that has mixed a lot of rhetorical cant with a big principle. The cant is more obvious. The American right cites Barack Obama's proposals as another sign that he hates capitalism. Yet not only abuses plainly occurred but for-profit colleges are hardly poster children for free enterprise: they are already heavily regulated, not least because most of the loans to students are provided by the government. The left, from its non-profit redoubts, claims that these are big businesses exploiting the little guy.

The principle? Concentrate on the quality of the education, not the ownership. All sorts of colleges seem to have been guilty of shabby marketing. They should be treated the same. Good rules—such as Mr Graham's one—should apply to non-profit and for-profit colleges alike. Singling out for-profits for special attention risks depriving students, and America at large, of

the full benefits in innovation and cost-effectiveness that the profit motive has generally brought to higher education. That really would be “socially destructive”.

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