

THE RISE AND FALL OF FOR-PROFIT SCHOOLS

By James Surowiecki

Not too long ago, for-profit colleges looked like the future of education. Targeting so-called “nontraditional students”—who are typically older, often have jobs, and don’t necessarily go to school full time—they advertised aggressively to attract business, claiming to impart marketable skills that would lead to good jobs. They invested heavily in online learning, which enabled them to operate nationwide and to keep costs down. The University of Phoenix, for instance, enrolled hundreds of thousands of students across the country, earning billions of dollars a year. Between 1990 and 2010, the percentage of bachelors’ degrees that came from for-profit schools septupled.

Today, the for-profit-education bubble is deflating. Regulators have been cracking down on the industry’s misdeeds—most notably, lying about job-placement rates. In May, Corinthian Colleges, once the second-largest for-profit chain in the country, went bankrupt. Enrollment at the University of Phoenix has fallen by more than half since 2010; a few weeks ago, the Department of Defense said that it wouldn’t fund troops who enrolled there. Other institutions have experienced similar declines.

The fundamental problem is that these schools made promises they couldn’t keep. For-profit colleges are far more expensive than community colleges, their closest peers, but, according to a 2013 study by three Harvard professors, their graduates have lower earnings and are actually more likely to end up unemployed. To make matters worse, these students are usually in a lot of debt. Ninety-six per cent of them take out loans, and they owe an average of more than forty thousand dollars. According to a study by the economists Adam Looney and Constantine Yannelis, students at for-profit schools are roughly three times as likely to default as students at traditional colleges. And the ones who don’t default often use deferments to stay afloat: according to the Department of Education, seventy-one per cent of the alumni of American National University hadn’t repaid a dime, even after being out of school for five years.

Dependence on student loans was not incidental to the for-profit boom—it was the business model. The schools may have been meeting a genuine market need, but, in most cases, their profits came not from building a better mousetrap but from gaming the taxpayer-funded financial-aid system. Since the schools weren't lending money themselves, they didn't have to worry about whether it would be paid back. So they had every incentive to encourage students to take out as much financial aid as possible, often by giving them a distorted picture of what they could expect in the future. *Corinthians*, for instance, was found to have lied about job-placement rates nearly a thousand times. And a 2010 undercover government investigation of fifteen for-profit colleges found that all fifteen “made deceptive or otherwise questionable statements.” One told an applicant that barbers could earn up to two hundred and fifty thousand dollars a year. Schools also jacked up prices to take advantage of the system. A 2012 study found that increases in tuition closely tracked increases in financial aid.

For-profit colleges have capitalized on our desire to make education more inclusive. Students at for-profit schools are able to borrow huge sums of money because the government does not take creditworthiness into account when making most student loans. The goal is noble: everyone should be able to go to college. The result, though, is that too many people end up with debts they cannot repay. Seen this way, the students at for-profit schools look a lot like the homeowners during the housing bubble. In both cases, powerful ideological forces pushed people to borrow (“Homeownership is the path to wealth”; “Education is the key to the future”). In both cases, credit was cheap and easy to come by. And in both cases the people pushing the loans (mortgage brokers and for-profit schools) didn't have to worry about whether those loans were reasonable, since they got paid regardless.

The government is finally making it harder for for-profit schools to continue to ride the student-loan gravy train, requiring them to prove that, on average, students' loan payments amount to less than eight per cent of their annual income. Schools that fail this test four years in a row will have their access to federal loans cut off, which would effectively put them out of business. The crackdown is long overdue, but there's an important consequence: fewer nontraditional students will be able to go to college. Defenders of the for-profit industry, including Republicans in Congress, have emphasized this point in order to forestall tougher regulation.

But if we really want more people to go to college we should put more money into community colleges and public universities, which have been starved of funding in recent years. We should also rethink our assumption that college is always the right answer, regardless of cost. Politicians love to invoke education as the solution to our economic ills. But they're often papering over the fact that our economy just isn't creating enough good jobs for ordinary Americans. The notion that college will transform your job prospects is, in many cases, an illusion, and for a while for-profit schools turned it into a very lucrative one. ♦



James Surowiecki is the author of “The Wisdom of Crowds.” [Read more »](#)

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