Taxpayers' Costs to Support Higher Education:

A Comparison of Public, Private Not-for-Profit, And Private For-Profit Institutions

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I. Introduction and Summary of Findings

The role of private for-profit institutions of higher education has expanded greatly in recent years. Demand for post-secondary education is up, especially for the career-focused curricula of most private for-profit colleges, universities and institutes. Further, the spread of Internet technologies creates new and highly-efficient channels for online learning, which private for-profit institutions have adopted more quickly than public and private not-for-profit colleges and universities. In addition, recent federal regulation of higher education tied to access to G.I. Bill and other federal student assistance has induced many private for-profit institutions to raise their standards and accreditation levels. The rapid expansion of these schools, however, also has raised questions about fast-rising expenditures for federal grants and loans to students attending for-profit institutions.

This analysis examines all forms of federal, state and local government support across the three classes of higher education institutions – public, private not-for-profit, and the private for-profit institutions – and the three categories of four-year, two-year and less-than-two-year institutions. This analysis shows that concerns about disproportionate assistance to private for-profit colleges, universities and institutes are misplaced.

- Private for-profit institutions and their students receive less than 30 percent of the support per-student from all levels of government provided to public institutions and their students, and less than 48 percent of the support per-student received by private not-for-profit institutions and their students.

In particular, government provides private for-profit institutions little direct support through government grants, appropriations and contracts to the institutions. On a per-student basis,

- For every $1 in direct government support for private for-profit institutions, per-student, at federal, state and local levels, private not-for-profit institutions receive $8.69 per-student and public institutions receive $19.38 per-student.

The rising demand for higher education reflects the economic value of that education, especially those who graduate. About 55 percent of American adults have attended some institution of higher education, and 38 percent have earned degrees. In 2007, those who held an associate's degree, on average, earned 27 percent more than those with only a high school education; and those with bachelor's degrees earned on average 83 percent more than those with

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no post-secondary education. These differences were greatest for minorities and those from low-income families. As a result, the number of students attending post-secondary institutions grew 35 percent in recent years, from 14.3 million in 1995 to 19.6 million in 2008. Moreover, over the same period, attendance at private for-profit institutions expanded 750 percent, from 240,000 to 1.8 million students.

The three classes of institutions serve distinct if overlapping demands and aspirations: More than 98 percent of those attending private not-for-profit institutions are enrolled in four-year programs, compared to 52 percent of those attending public institutions and 65 percent of those attending private for-profit institutions. Further, 47.5 percent of those attending public institutions are enrolled in two-year courses of study, compared to 20 percent of those attending private for-profits and just over 1 percent of those attending private not-for-profits. Finally, about 15 percent of those attending private for-profits pursue programs of less-than-two-years, compared to less than 1 percent of those attending public or private not-for-profit institutions.

Admission requirements vary across the three classes and types of institutions: For example, more than 43 percent of four-year private for-profit institutions have open admissions, compared to less than 15 percent of four-year public and private not-for-profit institutions; while 96 percent of two-year or less public institutions have open admissions, compared to 47 percent of two-year private not-for-profits and 61 percent of private for-profits. Further, differences across institutions in the focus of and approach to the education they offer produce different student bodies. In particular, those attending private for profit institutions tend to be older and from less comfortable circumstances. Across four-year institutions, for example, 60 percent of those attending private for-profits are 25 years old or older, compared to less than 30 percent of those attending four-year public and private not-for-profit institutions. In addition, nearly 39 percent of those attending four-year private for-profit institutions come from families or households with incomes of less than $25,000, compared to 31 percent of those attending public institutions and less than 23 percent of students at private not-for-profit institutions. This difference affects levels of public support for students, translating into larger government loans and grants, per-student, for those attending private for-profits.

Recent studies have further found that private for-profit institutions attract larger shares of both minority and low or moderate-income students: Across four-year institutions, for example, nearly 40 percent of students entering private for-profit institutions are racial minorities or Hispanic, compared to 28 percent of students entering private not-for-profit institutions and 31 percent entering public institutions. In addition, two-thirds of students entering four-year private for-profit institutions come from low or moderate income families, compared to less than 30 percent of those entering private not-for-profit and public institutions.

More important, private for-profit institutions are more successful in educating students classified as “at-risk” or “high-risk” by the Department of Education – generally, those from low-income minority households. Across four-year institutions that serve predominantly lower-income students, for example, a student entering a private for-profit institution is 40 percent more likely to graduate than one entering a comparable private not-for-profit institution, and 70 percent more likely to graduate than one entering a comparable public institution. Similarly, across four-year institutions with at least 75 percent minority enrollments, those entering a private-for-profit institution are 18 percent more likely to graduate than those entering its private not-for-profit counterpart and 42 percent more likely to graduate than those entering a comparable public institution. However, an analysis of graduation rates at all four-year and two-year institutions, without distinguishing those that serve predominantly lower-income or minority students, found that students of all races attending four-year private not-for-profit institutions has modestly higher graduation rates than those attending four-year private for-profit institutions, while public institutions produced significantly lower graduation rates for all races and ethnicities. The pattern was similar for two-year institutions, except that the graduation rate for Hispanics is as high at private for-profit institutions as at private not-for-profits, and a higher percentage of students of Asian and Pacific Islander heritage graduate from for-profit institutions than from not-for-profits.

The three classes of institutions achieve these various results using very different levels of total resources or revenues per-student, especially for four-year institutions. Across the three classes of institutions, for example,

- Four-year private for-profit institutions had total revenues of $10,375 per-student, compared to $29,386 per-student at four-year public institutions and $38,261 per-student at four-year private not-for-profit institutions.

These disparities are smaller across two-year institutions: Two-year private for-profits had revenues equal to $13,176 per-student, only $500 less that the per-student revenues of $13,658 for private not-for-profits; and both far exceed the average revenues of $7,530 per-student at two-year public institutions. Finally, revenues at less-than-two-year institutions vary little: $12,654 per-student at private not-for-profit institutions, $11,878 per-student at public institutions, and $11,692 per-student at private for-profit institutions.

The three classes of institutions rely on different sources for these revenues. Across four-year institutions, public institutions rely largely on direct government support and private sources of revenues other than tuitions, such as endowments, gifts and revenues from athletics and other activities; private not-for-profits rely largely on tuitions and those other private sources of revenues; and private for-profits rely mainly on tuitions.

- Direct government grants, appropriations and contracts provide 45 percent of the revenues of four-year public institutions, 12.5 percent of the resources of private not-for-profits, and 5.5 percent of the resources of private for-profits. In the aggregate, private for-profit institutions pay government more in taxes than they receive in direct support.

- Other private sources of revenues provide 51 percent of the revenues of four-year private not-for-profits, 37 percent of the revenues of public institutions, and just 6 percent for private for-profits.

- With little access to direct government support or other private sources of funds, four-year private for-profit institutions rely on tuitions for 88 percent of their revenues, compared to 36 percent for private not-for-profits and 18 percent for public institutions.

Across two-year institutions, public institutions are even more dependent on direct government support, private not-for-profits continue to rely on tuitions and other private sources of revenues, and private for-profits remain highly dependent on tuitions.

All three classes of institutions also depend on another form of public support: Government grants and loans to students, which provide indirect support for the institutions and are commonly counted in tuition payments. Despite the fact that private for-profit institutions rely much more on tuitions, and their students come from households or families with lower incomes than students at private not-for-profit and public institutions, the average recipient of assistance at a four-year private for-profit institution receives less in total student grants from all levels of government than the average recipient at four-year public or private not-for-profit institutions. This disparity largely reflects very low levels of support for students at private for-profit institutions from state and local governments. As a result, students at four-year private for-profit institutions rely more on federal loans. Across four-year institutions,

- Recipients of government *grants* at four-year private for-profit institutions receive an average of $5,952 each, compared to $6,638 per-recipient at public institutions and $7,351 per-recipient at private not-for-profit institutions.

- Students at four-year private for-profit institutions also receive much smaller grants from their institutions: Recipients at private for-profit institutions receive an average of $1,235 in institutional grants, compared to $3,956 per-recipient at public institutions and $11,539 per-recipient at private not-for-profit institutions.

- As a consequence, students at four-year private for-profit institutions rely more heavily on federal *loans*. Student borrowers at private for-profit institutions receive an average of $7,529 in federal loans, compared to $4,130 per-student borrower at public institutions and $4,567 per-student borrower at private not-for-profit institutions.

These differences in students' reliance on federal loans are also evident in assistance for students at two-year institutions, although the average loans for students at private for-profit institutions and private not-for-profit institutions are closer in amount.

The actual cost of these student loans to government and taxpayers is based on the extent of the interest rate subsidies provided and the default rates. The interest rate subsidies are the same for student-borrowers at all three classes of institutions, but the default rates are higher among students from private for-profit institutions than among those attending public or private not-for-profit institutions. These taxpayer costs, however, are more than offset by another difference between the institutions: Private for-profits pay federal, state and local taxes on their incomes, while public and private not-for-profit institutions are largely tax-exempt.[2]

The revenues of all four-year, two-year, and less-than-two-year private for-profit institutions totaled more than $20 billion in 2008, with total expenditures of about $17.5 billion. At a combined 40 percent tax rate, we estimate that these institutions paid nearly $1 billion in federal, state and local taxes, or an average of $549 per-student. In calculating the total

[2] Public and private nor-for-profit institutions are liable for taxes on "unrelated business income," such as admissions to athletic events and sales of memorabilia, but most of this income is offset by allocated expenses.

government support per-student, provided to each of the three classes of institutions, the tax receipts paid by private for-profit institutions are netted out. A final determination of the relative taxpayer support provided, per-student, to the three classes of institutions of higher education draws on all of these elements – direct government grants, appropriations and contracts to institutions from the federal, state and local governments; government grants, interest subsidies and covered defaults for students provided at the federal, state and local levels; and offsetting tax payments paid by institutions to federal, state and local governments.

This analysis shows that the total government support, direct and indirect, received by private for-profit institutions and their students, net of tax payments, is substantially less than the per-student support provided to private not-for-profit institutions and their students, and much less than the per-student support provided to public institutions and their students.

Most of these disparities reflect differences in the support provided directly to institutions by federal, state and local governments. Moreover, the indirect support for these institutions provided through student grants, loans and covered default from federal, state and local government, is generally comparable, on per-student basis, across the three classes of institutions. A pertinent distinction, however, arises from the source of this indirect support: Students at private for-profit institutions receive greater federal support per-student, mainly through loans, while students at public and private not-for-profit institutions receive relatively more from state and local governments. For example, across four-year institutions,

- Private for-profit institutions receive an average of $2,394 per-student in direct and indirect federal, state and local government support, net of taxes paid, compared to $7,065 per-student at four-year private not-for-profit institutions and $15,540 per-student at four-year public institutions.

- Total federal support, direct and indirect, averages $2,755 per-student at four-year private for-profit institutions, compared to $5,398 per-student at private not-for-profit institutions and $5,192 per-student at public institutions.

- By contrast, total direct and indirect support from state and local governments averages $236 per-student at the private for-profit institutions, compared to $1,668 per-student at the private not-for-profit institutions and $10,348 per-student at the public institutions.

- The total direct support provided by all levels of government to four-year private for-profit institutions is actually *negative*, since the taxes they pay exceed their direct government grants, appropriations and contracts, by $22 per-student. In contrast, direct support from all levels of government comes to $4,765 per-student for four-year private not-for-profit institutions and $13,240 per-student for public institutions.

- Total indirect support provided to these institutions by all levels of government, through the costs of federal, state and local government student grants, loan subsidies and default payments, averages $2,416 per-student at four-year private for-profit institutions, compared to $2,301 per-student at private not-for-profits, and $2,300 per-student at public institutions.

The patterns of government support for two-year institutions and their students are different in certain respects.

- Private for-profit two-year institutions receive $3,628 per-student in total direct and indirect support from federal, state and local governments, net of taxes paid, compared to $5,244 per-student at two-year private not-for-profit institutions and $6,919 per-student at two-year public institutions.

- Total federal support, direct and indirect, averages $3,690 per-student at two-year private for-profit institutions, roughly equal to the $3,610 per-student at private not-for-profit institutions and greater than the $2,289 per-student at public institutions. By contrast, again, total direct and indirect support from state and local governments averages $424 per-student at the private for-profit institutions, compared to $1,634 per-student at the private not-for-profit institutions and $4,631 per-student at the public institutions.

- The total direct support provided by all levels of government, post-tax, provided to two-year private for-profit institutions averages $599 per-student, much less than the direct support of $2,359 per-student provided to two-year private not-for-profit institutions and $5,233 per-student for public institutions.

- Total indirect support provided to these institutions by all levels of government, through the costs of federal, state and local government student grants, loan subsidies and default payments, averages $3,030 per-student at two-year private for-profit institutions, once again a little more than the $2,885 per-student at private not-for-profits, and considerably more than the $1,687 per-student at public institutions.

We also calculate the differences in the provision of public resources for the three classes of institutions by setting government support per-student for private for-profit institutions at $1 and expressing the support per-student for public and private not-for-profit institutions based on their ratio to the support for private for-profit institutions. Therefore, support at twice the level, per-student, of private for-profit institutions is expressed as $2.00, and support at half that reference level is expressed as $0.50. Here, we present the combined averages of these relative levels of government support, per-student. The relative levels of support for each type of institution – four-year, two-year and less-than-two-years -- are provided in the body of the report.

This final analysis shows that private for-profit institutions and their students receive less than one-half as much support from federal, state and local governments, per-student, as private not-for-profit institutions and their students, and less than one-third of the government support, per-student, received by public institutions and their students. The exception, as noted before, comes in indirect support for the institutions through direct government support for their students, in which the costs per-student at public institutions are lower than those costs per-student at private for-profit and private not-for-profit institutions. This reflects in part the lower tuition costs at public institutions.

- For every $1.00 in combined direct and indirect federal, state and local government support, per-student, for private for-profit institutions, private not-for-profit institutions receive $2.11 per-student and public institutions receive $3.41 per-student.

- For every $1.00 in both direct and indirect support per-student from the federal government for private for-profit institutions, private not-for-profit institutions receive $1.41 per-student and public institutions and their students receive $0.98 per-student. However, for every $1.00 in direct and indirect support per-student from state and local governments for private for-profit institutions, private not-for-profit institutions receive $6.92 per-student, and public institutions receive $27.12 per-student.

- For every $1.00 in combined direct support by all levels of government for private for-profit institutions per-student, private not-for-profit institutions receive $8.69 per-student and public institutions receive $19.38 per-student.

- For every $1.00 in combined indirect support by all levels of government for private for-profit institutions per-student, private not-for-profit institutions receive $0.99 per-student and public institutions receive $0.68 per-student.

Finally, we estimate the potential costs to taxpayers of fulfilling President Obama's policy proposal to expand student enrollments in higher education sufficiently to produce an additional 5 million certificates and associate degrees. We estimate those costs under two scenarios. First, we assume that the additional enrollees are distributed across the three classes of institutions, based on their current relative enrollments. Second, we assume that the policy would be carried out entirely by public institutions. We find that relying on private for-profit and private not-for-profit institutions, as well as public institutions, would cost taxpayers $33 billion less than relying entirely on public institutions.

One major factor is differences in graduation rates across the three classes of institutions. The policy would be carried out by two-year institutions that award associates degrees and by less-than-two-year institutions that award certificates. Graduation rates at less-than-two-year institutions are uniformly high across the three classes of institutions.[3] However, only 28 percent of students enrolled at two-year public institutions graduate, compared to 65 percent of students enrolled at two-year private for-profit institutions and 58 percent of students enrolled at two-year private not-for-profit institutions. We also assume here that government picks up the entire cost of the program, so some of the saving reflects the considerably lower costs per-student at private for-profit institutions, compared to private not-for-profit or public institutions.

- The total government costs would be $13,816 per-enrollee and $42,640 per-graduate under the first scenario, with the participation of private for-profit and not-for-profit institutions as well as public institutions, compared to $14,227 per-enrollee and $49,205 per-graduate under the second scenario, with only public institutions.

This analysis suggests clearly that private for-profit institutions produce associate degrees and certificates more efficiently than private not-for-profit institutions or public institutions.

[3] Some 80 percent of students enrolled at less-than-two-year private not-for-profit and public institution graduate, as do 70 percent of students enrolled at less-than-two-year private for-profit institutions

- The cost for programs leading to associate degrees is $9,766 per-enrollee at two-year private for-profit institutions, compared to $11,892 per-enrollee at private not-for-profit institutions and $14,161 per-enrollee at public institutions.

- The relative efficiency of private for-profit institution is even greater on a per-graduate basis: The cost of an associate-degree program, per-graduate, is $14,932 at two-year private for-profit institutions, compared to $20,469 per-graduate at private not-for-profit institutions and $49,864 per-graduate at public institutions.

- Similarly, the cost for programs leading to certificates is $9,037 per-enrollee at less-than-two-year private for-profit institutions, compared to $16,694 per-enrollee at private not-for-profit institutions and $20,738 per-enrollee at public institutions.

- Again, the relative efficiency of private for-profit institutions is greater on a per-graduate basis: The cost of a certificate level program, per-graduate, is $12,892 at less-than-two-year private for-profit institutions, compared to $20,867 per-graduate at private not-for-profit institutions and $25,891 per-graduate at public institutions.

As a result, the total cost of the President's proposal using all three classes of institutions, and especially private for-profit institutions, would come to $213 billion, compared to $246 billion if the policy were carried out using only public institutions.

II. The Role of Private For-Profit Institutions of Higher Education

While private for-profit institutions of post-secondary education have played a role in American higher education since the proprietary vocational schools of colonial times and the private career colleges of the pre-Civil War period, their prominence and significance have expanded greatly in just the last decade. From 1995 to 2008, while enrollments in all forms of higher education have risen 37 percent, from 14.3 million to 19.6 million students, private for-profit institutions have expanded 750 percent from 240,000 to 1.8 million students.[4] Several factors have contributed to this expansion, notably fast-rising demand for advanced education and training among both young people and older working people faced with job markets that increasingly require technical knowledge and skills beyond those provided by American high schools. In addition, the increasingly widespread use of Internet technologies has created new and highly-efficient mechanisms for online learning, and private for-profit institutions have been able to move into this new market niche more quickly and effectively than many traditional public and private not-for-profit institutions. Finally, federal regulation of for-profit institutions in the 1990s forced them to raise their standards and quality, until they found themselves competing directly with public and private not-for-profit colleges and universities.

The early for-profit career colleges focused on office-related skills, including the new techniques of typing using the first on mechanical typewriters. These colleges also developed the first correspondence courses, which were often held in low esteem. In the early 20th century,

[4] U.S. National Center for Education Statistics; and, "Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education." United States Senate, Health Education, Labor and Pensions Committee. 2010.

however, their appeal was undercut by growing government support for new public institutions of higher education, which also provided work-related training with lower tuitions.[5] In the 1970s and 1980s, the reputation of for-profit schools, which then operated with few regulatory standards or constraints, suffered from several scandals involving scams of low-income urban students. By the 1990s, for-profit schools were widely seen as last-resort trade schools; and two-thirds offered only programs of less than one year, generally focused on business, marketing and cosmetology.[6] In 1990, cosmetology accounted for 40 percent of all proprietary schools and 14 percent of the students attending for-profit institutions.[7]

Changes in favor of for-profit education began with the World War II G.I. Bill, providing returning veterans federal funds for postsecondary education, including for-profit schools. Also, the 1972 reauthorization of the Higher Education Act made available government student aid available for for-profit schools.

Until the 1990s, for-profit schools did not really compete for students with public and private not-for-profit colleges and universities, despite the fact that students at all three classes of institutions qualified for support under both the G.I. Bill and the Higher Education Act. In 1992, however, with default rates on student loans reaching 22 percent overall and 41 percent for proprietary schools, Congress mandated stricter regulation of schools receiving Title IV financial assistance for students under the Higher Education Act.[8] These new requirements included the 85-15 rule, barring proprietary schools from participating in Title IV programs if more than 85 percent of their revenues come from these programs.[9] In addition, private for-profit institutions also became subject to regulatory oversight by the Department of Education, state governments and accrediting agencies. The new regulation also increased the minimum length of programs eligible for federal student assistance, tightened procedures for recruiting and admitting students, required accreditation for eligibility for Title IV funding, and established much stricter standards for such accreditation.[10] By 1996, the General Accounting Office (GAO) reported that the number of accredited private for-profit schools had declined, and the quality of those that remained has increased significantly.[11]

These developments, including the rising reputation of for-profit institutions, laid the foundation for their dramatic growth over the last decade. This growth cannot be divorced from the fact that these institutions operate as businesses. For example, while public universities have to rely on the time-consuming process of legislative and taxpayer approval as demand for advanced skills and training has grown, private for-profit institutions have had access to venture capital. As public companies with high rates of return, many for-profit institutions have been

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[5] Coleman, James and Richard Vedder. (2008). “For-Profit Education in the United States: A Primer.” Center for College Affordability and Productivity.
[6] Bailey, Thormas, Norena Badway and Patricia Gumport. (2001). “For Profit Higher Education and Community Colleges.” National Center for Post-Secondary Improvement, Stanford University.
[7] *Ibid.* In 1990, cosmetology accounted for 40 percent of all proprietary schools and 14 percent of the students attending for-profit institutions
[8] U.S. General Accounting Office. (1996). “Higher Education: Ensuring Quality Education From Proprietary Institutions http://www.gao.gov/archive/1996/he96158t.pdf.”
[9] GAO (1996)
[10] Bailey, Morey. (2004). “Globalization and the Emergence of For-Profit Higher Education.” *Higher Education* 48: 131-150..
[11] GAO (1996)

able to use public capital markets to raise funds.[12] DeVry University was the first for-profit school to become a publicly-traded company in 1991; and today, 14 publicly-traded educational institutions have combined enrollment of 1.8 million students.[13] For-profit schools also have been early-adopters of modern marketing and able to expand though mergers, takeovers, and contracting with corporations and universities to provide services.[14] They typically view their students as customers and approach their operations through business standards of efficiency, often shedding such common and expensive attributes of a traditional university as electives, dormitories, sports facilities and teams, and other ‘campus life’ organizations.

For-profit institutions also tailor their educational offering to market demands more quickly and comprehensively than public and private not-for-profit colleges and universities. A recent review of higher education in 2004-2005, for example, found that for-profits were highly focused on programs in business, health care and computer science, mirroring the fastest growing occupational sectors. In an economy increasingly dominated for information technologies, millions of American young people and adults have been forced to find training in those technologies; and for-profit institutions have responded to this demand more quickly and widely than their many of their not-for-profit counterparts. Researchers also have found that many adults respond more favorably to institutions that treat their students as customers, because it better enables them to combine their education with their working and home life schedules, especially through greater use of online instruction.[15] This advantage was enhanced in 2005, when Congress repealed the “50 percent rule” which had barred schools from providing more than half of their courses online and from enrolling more than half of their students in distance learning courses.[16] Today, seven of the 14 publically-traded institutions of higher education enroll more than half of their students in distance learning.

The basic educational approach of private for-profit institutions also is closely attuned to the demands of many potential students. Their primary goal and mission is to train people for well-paid jobs, with much less investment in the value of a traditional, liberal arts education. This focus distinguishes for-profit institutions particularly from many community colleges, which provide occupational training as part of larger programs of overall education and a possible path to more advanced institutions of higher education. The for-profits’ focus on job-related skills and knowledge creates an interplay of career and education which reinforces their appeal, hiring faculty from the occupations for which they prepare their students, instructing them in their specialties, and often helping place in those jobs. This model not only has proved to be appealing to students who prefer a direct path for a chosen career, at its best, it also provides students with up-to-date knowledge and teaching from faculty with extensive practical experience in that career.

For example, the nation’s largest accredited university, the University of Phoenix, has no tenured faculty. More experienced professors train the new teachers, and those who don’t perform to the University’s standard are replaced at any time. Faculty members do not have to engage in research, which at traditional universities claim between one-third and one-half of

[12] Bailey (2004), pg 136
[13] Bailey (2004); Senate Committee report (2010)
[14] Bailey (2004), pg 136
[15] Bailey (2004)
[16] Senate Committee report (2010)

teachers' time and entail large expenses for the institution.[17] Decision-making and curricula are centrally developed and standardized, which has enabled Phoenix to implement innovations in technology and education quickly and broadly. As is the case with many large for-profit institutions, Phoenix delivers some 90 percent of its course materials through E-text books and other electronic means.[18]

The growing demand for access to higher education is evident in the rising rate of high school graduates pursuing further education. The Bureau of Labor Statistics reports that 70 percent of 2009 high school graduates enrolled in colleges or universities, record levels up from 49 percent in 1972, and 67 percent in 1997.[19] With many states cutting support for public universities and community colleges in response to recent and current economic conditions , and most private not-for-profit institutions dealing with cutbacks in donations and diminished endowment income, private for-profits are the only class of educational institutions expanding their operations to meet the current high demand.

Economic downturns typically induce more people to return to school, and the recent recession and slow recovery has been a large increase in enrollments at for-profit institutions.[20] In this environment, the private for-profits have been particularly successful in attracting not only adult learners, but also young people from urban, minority, and low-income communities. The 2009 undergraduate class of the University of Phoenix, for example, is 30 percent African-American, 11 percent Hispanic, and two-thirds female.[21] The evolving demands of the American job market, high acceptance rates, and to focus on customer service and job training have made for-profits a large and significant segment of American higher education.

III. The Economic Returns on Education and Who Claims Those Returns

The strong growth of higher education over the last generation generally reflects the value proposition of the services provided: Higher education imparts new knowledge and skills, which improve students' human capital and generally makes them more productive, which in turn translates into higher incomes. These dynamics have been intensified by changes in the American economy in recent decades, which in turn have shaped the demands which business and public sector organizations now place on their employees. In particular, the spread of information and Internet technologies across every economic sector and the reorganization of jobs and workplaces to make effective use of these technologies have placed new premiums not only on IT-related skills, but more generally on flexibility and adaptability, capacities closely associated with higher education. The education which an individual completes, therefore, has become the single most important factor determining his or her long-term income and wealth.

According to U.S. Census Bureau data, more than 55 percent of Americans age 25 years or older have some post-secondary education, while the remainder have high school diplomas or less. Some 17.2 percent of the more educated group attended an institution of higher education but had not completed a degree, while 8.8 percent have earned associate degrees, 19.1 percent

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[17] Bailey (2004), pg 141
[18] http://www.usatoday.com/news/education/2010-06-08-IHE-for-profit-colleges-etextbooks09_ST_N.htm
[19] http://www.bls.gov/news.release/hsgec.nr0.htm; http://nces.ed.gov/fastfacts/display.asp?id=51
[20] http://www.insidehighered.com/news/2010/04/07/enroll
[21] http://www.phoenix.edu/about_us/publications/academic-annual-report.html

have earned bachelor degrees, and 10.3 percent have earned bachelor and advanced degrees. (Table 1, below)

The educational achievements of Americans vary significantly by gender and race. For example, the share of women age 25 years and older with some post-secondary education is higher than the national average, while their share of those who have earned advanced degrees is smaller than average. The Census data show that 43.9 percent of woman have a high school diploma or less, compared to 45.3 percent of men; but 9.7 percent of the women have earned advanced degrees, compared to 11.0 percent of the men. (Table 1, below) The differences by race are even larger. A little more than 44 percent of whites age 25 and older and 52 percent of African-Americans of the same age have only high school diplomas or less; but less than 37 percent of those classified as "other" – principally, Asians – failed to go beyond high school. Similarly, nearly 26 percent of Asians and others classified as neither white nor African-American age 25 years and older have earned college degrees compared to 19.3 percent of whites and 13.6 percent of African-Americans. Finally, more than 16 percent of Asians and others hold both bachelor and advanced degrees compared to 10.4 percent of whites and 6.1 percent of African-Americans.

Table 1. Educational Attainment by Gender, Race, and Employment of Americans Age 25 Years and Older, in Millions of People and as Percent of That Age Group, 2008[22]

	Population (millions)	High School or less	Some College	Associate Degree	Bachelor Degree	Advanced Degree
All	196.3	44.6%	17.2%	8.8%	19.1%	10.3%
Gender						
Male	94.5	45.3%	16.7%	7.9%	19.1%	11.0%
Female	101.8	43.9%	17.7%	9.6%	19.2%	9.7%
Race						
White	160.7	44.2%	17.2%	8.9%	19.3%	10.4%
Black	22.3	52.1%	19.5%	8.8%	13.6%	6.1%
Other	13.4	36.8%	13.9%	7.5%	25.8%	16.1%
Employment Status						
Employed	125.9	37.1%	17.7%	10.1%	22.6%	12.5%
Unemployed	5.8	57.3%	17.8%	8.1%	12.2%	4.5%
Not in labor force	64.6	57.9%	16.2%	6.3%	13.0%	6.6%

Educational achievement is widely recognized as highly-significant in determining both employment and income. As shown in the table above, nearly 58 percent of those age 25 and older who are not in the labor force have only a high school education or less compared to 13 percent of those with college degrees. Moreover, more than 57 percent of those unemployed also have only a high school education or less compared to just over 12 percent of those with college degrees.

In the same vein, extensive research has established that the economic returns on education, measured by the mean earnings of people relative to their educational level, are

[22] U.S. Census Bureau, Current Population Survey.

consistently positive and rise with education. (Table 2, below) Once again, those returns are also sensitive to other factors, especially gender, race and ethnicity: The mean earnings of men are consistently higher than the mean earnings of women with the same education, and the mean earnings of whites are consistently higher than the mean earnings of African-Americans and Hispanics with the same education. This variability in average income based on gender, race or ethnicity, and age, after controlling for educational level, is substantial. The Census Bureau reports, for example, that the earnings of all college graduates in 2007 averaged $57,181 per-person, or 83 percent greater than the average of $31,286 for all high school graduates. (Table 2, below) However, the differences based on gender can be nearly as great: Men with college degrees had average incomes of $70,898, or 64 percent greater than the $43,127 average for all women with college degrees. Similarly, the average income of all white college graduates at $58,652 was 31 percent higher than the average incomes of all Hispanics with college degrees; and the average income of all 45-to-54 year-old with college degrees, at $68,131, was 41 percent higher than the average for college graduates age 25 to 34 or those over 65 years old.

Further, while studies have found that over recent decades, each additional year of secondary and higher education raises a person's income by, on average, between 10 percent and 12 percent, these returns on education also are what economists call "non-linear" with regard to a person's total years of schooling. In particular, completing a degree has a larger effect on income than the years required to do so, so that, for example, those with associate degrees earn substantially more than those with "some college" even though many of the latter group attended college for as long as or longer than those earning associate degrees.[23] [24] [25] [26] [27]

In the end, higher education counts: Educational level and income are strongly correlated after controlling for gender, age, race and ethnicity. Thus, in 2007, the average income of men with college degrees, at nearly $71,000 per-year, was almost double the income earned by men with high school diplomas. Similarly, the average income of women with college degrees, more than $43,000 per-year, was nearly 80 percent greater than women with high-school educations. These powerful connections between education and income also hold true across age, race and ethnic groups.

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[23] Psacharopoulos, George and Harry A. Patrinos. (2002). "Returns to Investment in Education: A Further Update." Working Paper 2881, World Bank Policy Research.

[24] Card, David. (2001). "Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems." *Econometrica* 69(5): 1127-60.

[25] Angrist, Joshua and Alan B. Krueger. (1992). "Estimating the Payoff to Schooling Using the Vietnam-Era Draft Lottery." Working Paper 4067, National Bureau of Economic Research.

[26] Welch, Finis. (1974). "Relationships Between Income and Schooling." *Review of Research in Education* 2: 179-201.

[27] Osborne, Melissa. (2000). "The Power of Personality: Labor Market Rewards and the Transmission of Earnings." University of Massachusetts.

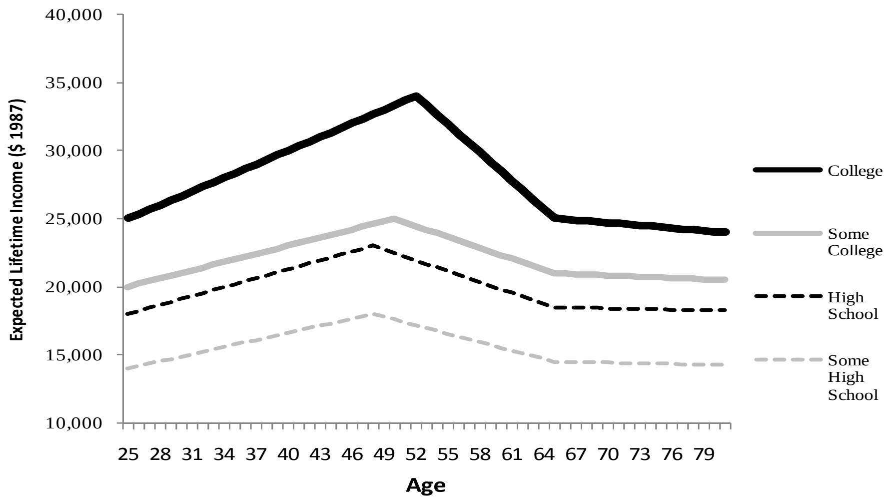
Table 2. Average Earnings by Level of Education and Age, Gender, Race and Ethnicity, 2007 [28]

	High School	Some College	Associate's Degree	Bachelor's Degree	Advanced Degree
All persons	$31,286	$33,009	$39,746	$57,181	$70,186
Gender					
Male	$36,839	$39,375	$47,190	$70,898	$86,966
Female	$24,234	$26,527	$33,276	$43,127	$54,772
Age					
25 to 34 years old	$28,982	$31,843	$36,741	$48,256	$55,401
35 to 44 years old	$36,060	$41,542	$42,489	$63,124	$75,739
45 to 54 years old	$36,562	$44,201	$45,145	$68,131	$81,419
55 to 64 years old	$34,161	$40,838	$42,344	$61,862	$71,063
65 years and older	$25,678	$31,938	$32,021	$48,245	$51,519
Race					
White	$32,223	$33,465	$40,373	$58,652	$71,321
African-American	$27,179	$31,318	$36,445	$46,502	$56,398
Other	$27,604	$29,384	$35,348	$44,696	$68,040

Educational achievement also affects how many years people work and when their incomes peak, with college-educated people enjoying more opportunities to work later in life and incomes that continue to rise for several years more than those with only high school educations. Studies have found, for example, that each additional year of education beyond high school extends the period to peak earnings by an additional year, so that incomes peak at age 48 for those with high school educations, age 50 for those with two-year degrees and age 52 for those with college degrees.[29] Using Consumer Expenditure Surveys from 1980 to 1993, the authors of the same study also estimated that the average real lifetime income of college-educated people is more than 44 percent greater than high-school educated people.[30] (Figure 1, below)

[28] U.S. Census Bureau, Current Population Survey.
[29] Gourinchas, Pierre-Olivier and Jonathan A. Parker. (2002). "Consumption Over the Life Cycle." *Econometrica* 70 (Jan): 47-89.
[30] Ashenfelter, Orley, Colm Harmon and Hessel Oosterbeek. (2000). "A Review of Estimates of the Schooling/Earnings Relationship, With Tests for Publication Bias," Working Paper 7457, National Bureau of Economic Research.

Figure 1: Life Cycle Income Profiles, by Level of Education[31]



Education also affects saving rates, as measured by the ratio of wealth to annual income. Researchers have found that a high school education increases that ratio by about 10 percent, compared to those without high school diplomas; some college increases the ratio by another 11 percent; a college degree raises that ratio another 19 percent; and more than one college degree (in a households) increases the wealth-to-income ratio by another 28 percent.[32]

The Value of Private for-Profit Institutions for High-Risk Students

A number of recent studies have found that for-profit institutions provide these benefits particularly to at-risk or high-risk students – largely minority and lower-income students – as measured by their access to postsecondary education, graduation rates, and income gains. One 2009 study found, for example, that for-profit institutions at virtually every level enroll larger percentages of black and Hispanic students than either private not-for-profit or public institutions.[33] (Table 3A, below) This study further found that students at for-profit institutions, on average, are older, more likely to come from relatively less-educated families and, based on the percentage of entering students receiving Pell Grants, generally poorer. (Table 3B, below)

[31] Gourinchas, Pierre-Olivier and Jonathan A. Parker. (2002). "Consumption Over the Life Cycle." *Econometrica* 70 (Jan): 47-89.
[32] Lusardi, Annamaria. (1998). "On the Importance of the Precautionary Saving Motive." *American Economic Review* 88 (2): 449-453.
[33] Swail, Watson S. (2009), "Graduating At-Risk Students: A Cross-Sector Analysis," Imagine America Foundation.

Table 3A. Distribution of Entering Students by Race and Ethnicity, and By Class and Type of Institution, 2003[34]

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Class of Institution	Type of Institution	White	Black	Hispanic	Other
All Institutions	**Total**	**61.6%**	**18.1%**	**14.3%**	**9.3%**
Four-Year	Private for-profit	47.5%	19.5%	12.8%	7.3%
	Private not-for-profit	68.0%	12.4%	8.1%	7.6%
	Public	65.7%	13.2%	9.1%	9.1%
Two-Year	Private for-profit	59.3%	22.7%	15.6%	7.1%
	Private not-for-profit	68.5%	17.5%	11.0%	18.5%
	Public	64.9%	14.9%	10.2%	10.5%
Less-than-Two-Year	Private for-profit	52.0%	27.3%	27.5%	10.2%
	Private not-for-profit	43.9%	27.6%	46.8%	18.0%
	Public	77.1%	15.5%	9.3%	11.3%

Table 3B. Share of Entering Students Receiving Pell Grants, By Class and Type of Institution, Fall 1995-1996 and 2003-2004[35]

Class of Institution	Type of Institution	1995-1996	2003-2004
All Institutions	**Total**	**38%**	**35%**
Four-year	Private for-profit	63%	66%
	Private non-for-profit	36%	28%
	Public	38%	27%
Two-year	Private for-profit	63%	72%
	Private non-for-profit	57%	59%
	Public	33%	26%
Less-than-Two-Years	Private for-profit	60%	86%
	Private non-for-profit	71%	84%
	Public	28%	50%

Furthermore, among students attending institutions that serve predominantly lower-income students, those attending four-year and two-year for-profit institutions have significantly higher graduation rates than those attending four-year and two-year private not-for-profit or public institutions. (Table 4A, below) For example, a student attending a four-year private for-profit institution with a predominantly lower-income student body is 40 percent more likely to graduate than a student attending a four-year private not-for-profit institution also with predominantly lower-income students. Similarly, a student attending a two-year private for-profit institution with mainly lower-income students is 133 percent more likely to graduate than a student attending a comparable two-year public institution. Only among less-than-two-year institutions serving lower-income students are those attending for-profit institutions less likely to complete their studies than those attending private not-for-profit or public institutions.

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[34] *Ibid.* Source: EPI analysis using the Integrated Postsecondary Education Data System, 2006, U.S. Department of Education. The data includes duplications, since survey participants could select more than one race/ethnic group, or fail to select any race or ethnic group.

[35] *Ibid.*

Table 4A. Graduation Rates at Institutions with Predominantly Lower-Income Students, and Likelihood of Graduating, By Class and Type of Institution, 2006[36]

Class of Institution	Type of Institution	Graduation Rate	Greater Likelihood of Graduating by Attending a Private for-profit Institution
Four-year	Private for-profit	55%	--
	Private not-for-profit	39	40%
	Public	31	70%
Two-year	Private for-profit	56	--
	Private not-for-profit	45	24%
	Public	24	133%
Less-than-Two-Year	Private for-profit	63	--
	Private not-for-profit	76	- 17%
	Public	73	- 13%

The same pattern holds for institutions with student bodies that are 75 percent or more minorities: Those attending such four-year and two-year for-profit institutions have significantly higher graduation rates than those attending comparable four-year and two-year private not-for-profit or public institutions. (Table 4B, below) For example, these data show that students attending four-year for-profit institutions with predominantly minority enrollments are 18 percent more likely to graduate than students attending four-year private not-for-profit institutions with mainly minority students, and 42 percent more likely to graduate than those attending four-year public institutions with predominantly minority student bodies. For less-than-two-year institutions with mainly minority student bodies, those attending for-profit institutions are 58 percent more likely to graduate those attending their public institution counterparts, but 14 percent less likely to graduate than those attending less-than-two-year private not-for-profit institutions serving minorities.

Table 4B. Graduation Rates at Institutions with at least 75 Percent Minority Enrollments, By Type and Class of Institution, 2006[37]

Class of Institution	Type of Institution	Graduation Rate	Greater Relative Likelihood of Graduating by Attending a Private for-profit Institution
Four-Year	Private for-profit	47%	--
	Private not-for-profit	40%	18%
	Public	33%	42%
Two-Year	Private for-profit	56%	--
	Private not-for-profit	44%	27%
	Public	16%	250%
Less-than-Two-Year	Private for-profit	63%	--
	Private not-for-profit	73%	-14%
	Public	40%	58%

[36] *Ibid.*, and author' calculations
[37] *Ibid.*, and authors' calculations.

An analysis of graduation rates by race and ethnicity at all four-year and two-year institutions, without distinguishing between institutions serving predominantly lower-income or minority students and all others, found slightly different results. These data found that students of all races attending four-year private not-for-profit institutions had modestly higher graduation rates than those attending four-year private for-profit institutions, and students of all races attending four-year public institutions had the lowest graduation rates. (Table 5, below) The pattern is similar for two-year institutions, except that Hispanics at for-profit institutions are as likely to graduate as Hispanics attending private not-for-profit institutions, and Asian and Pacific Islander students at two-year private for-profit institutions had higher graduation rates than Asian and Pacific Islanders at two-year private not-for-profit institutions. In all cases, students of all races and ethnicity attending four-year and two-year public institutions were significantly less likely to complete their educations than those attending private for-profit or not-for-profit institutions.

Table 5. Graduation Rates by Race and Ethnicity, By Type and Class of Institution, 2006[38]

Class of Institution	Type of Institution	White	Black	Hispanic	Asian, Pacific Islander
Four-year	All four-year	54%	46%	52%	59%
	Private for-profit	50%	45%	54%	62%
	Private not-for-profit	58%	50%	57%	65%
	Public	46%	38%	43%	49%
Two-year	All two-year	46%	37%	44%	53%
	Career colleges	62%	54%	63%	75%
	Private not-for-profit	69%	59%	63%	69%
	Public	31%	23%	30%	38%

Another study issued in 2010 found similar results by analyzing how well two-year and less-than-two-year private for-profit institutions serve the needs of "high-risk" students, compared to two-year and less-than-two-year public institutions.[39] They found that most private for-profit institutions do a better job in graduating high-risk students and delivering income gains than most public institutions, and at comparable cost. Like other research, this study found first that private for-profit institutions enroll a higher proportion of high-risk students than public institutions: In 2004, about half of students enrolled in two-year and less-than-two-year private for-profit institutions were considered high-risk by Department of Education criteria, compared to one-third of students at public institutions.[40] These findings held across many criteria, including coming from an inner-city household, a low-income household, a minority household, and being the first person in a family to attend a post-secondary institution.

After tracking these students, the researchers also report substantially higher graduation rates for high-risk students attending private for-profit institutions, and even greater differences

[38] *Ibid.*

[39] Lytle, Robert, Roger Brinner, Chris Ross (2010), "Private Sector Post-Secondary Schools: Do They Deliver Value to Students and Society?" The Parthenon Group.

[40] This study defined a high-risk student as one with at least three of the following Department of Education risk factors: delayed enrollment, no high school diploma, part-time enrollment, financially independent, have dependents, single parent status, or working full-time while enrolled

comparing high-risk minority students. (Table 6, below) For example, minority students have a 78 percent greater likelihood of graduating from a two-year or less-than-two-year institution if they attend a private for-profit institution compared to a public institution.[41] Based on the schools' total revenues, these two-year and less-than-two-year private for-profit and public institutions both took in roughly $25,000 in revenues to produce a "positive outcome," defined here as graduation or successful transfer to another school. Finally, five years after graduating, the average income gains of those who had been high-risk students at private for-profit institutions exceeded by a modest amount the average income gains of the high-risk graduates from public institutions at $7,900 compared to $7,500.

Table 6. Graduation Rates for High-Risk and Minority Students at Two-Year and Less-than-Two-Year Private for-Profit and Public Institutions, 2001[42]

Students	Private for-Profit Institutions	Public Institutions	Greater Likelihood of Graduating by Attending a Private for-profit Institution
High-Risk Students	65%	44%	48%
Minority Students	64%	36%	78%

Finally, two other recent studies have sought to explain the more favorable outcomes of at-risk and high-risk students who attend private institutions compared to public institutions. One study attributes this success to history and practice: While public community colleges evolved as middle-class institutions offering students a second chance to enter a traditional four-year college, private two-year institutions have a long record of providing applied education and training in occupational areas selected by students who come from less advantaged backgrounds.[43] Thus, for example, while students at public community college students often report problems choosing the appropriate courses to complete their degrees, private two-year institutions typically have more highly-structured programs and more extensive career advice and job placement services. The other, recently-released study looked at four private for-profit institutions in Texas with high graduation rates for at-risk students and low student loan default rates.[44] They attribute this success to organizational practices such as short programs and block scheduling, and to an institutional culture that stresses the importance of completing the course and graduating.

IV. The Enrollments of the Three Major Classes of Institutions of Higher Education

The emergence of a major for-profit segment of higher education is recent and accompanied the rapid expansion of total enrollments in higher education. In 1976, some 11 million people were enrolled in post-secondary institutions, of which 79 percent were in public institutions, 21 percent in private not-for-profit institutions, and just 0.4 percent in private for-profit institutions. (Table 7, below) Since 1976, the total enrollments have expanded 80 percent

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[41] Lytle, Robert, Roger Brinner, Chris Ross (2010),
[42] *Ibid.*
[43] Stephan, Jennifer L., James E. Rosenbaum and Ann E. Person (2009), "Stratification in College Entry and Completion," Social Science Research 38, pp 572-593.
[44] Frishberg, Ellen, John B. Lee, Carla Fletcher, and Jeff Webster (2010), "How to Graduate High-Risk Students: Lessons from Successful For-Profit Colleges and Schools in Texas," Texas Guaranteed Student Loan Corporation.

to reach 19.6 million in 2008. One quarter of the increase has gone to the private for-profit segment, which expanded more than 40-fold from 44,000 in 1976 to reach1.8 million students in 2008. In contrast, enrollments in public institutions grew 63 percent over the same period, and enrollments in private not-for-profits expanded 60 percent. The fastest growth for private for-profit institutions occurred from 1995 to 2008. Over that period, their enrollments grew nearly 6.5 times, from 240,000 to nearly 1.8 million students; and their share of all post-secondary enrollments jumped from 1.7 percent to 9.2 percent. The share of post-secondary school students attending public institutions correspondingly declined from 78.6 percent to 72 percent, and the share attending private not-for-profit institutions fell from 21.0 percent to 18.8 percent.

Table 7. Post-Secondary Enrollments, by Class of Institution, 1976-2008[45]

	1976	1985	1995	2005	2008
	Number of Enrollment				
Public	8,653,000	9,479,000	11,092,000	13,022,000	14,092,000
Private	2,359,000	2,768,000	3,169,000	4,466,000	5,582,000
Not-for-Profit	2,314,000	2,610,000	2,929,000	3,455,000	3,685,000
For-Profit	44,000	158,000	240,000	1,011,000	1,798,000
Total	11,012,000	12,247,000	14,261,000	17,487,000	19,574,000
	As percentage of total				
Public	78.6%	77.4%	77.8%	74.5%	72.0%
Private	21.4%	22.6%	22.2%	25.5%	28.0%
Not-for-Profit	21.0%	21.3%	20.5%	19.8%	18.8%
For-Profit	0.4%	1.3%	1.7%	5.8%	9.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The 19.6 million students in higher education in 2008 were enrolled in three distinct classes of institutions and programs -- public, private not-for-profit, and private for-profit institutions. (Tables 8A and 8B, below) Some 12.1 million of those enrollees or around 62 percent attended four-year public or private institutions, with 9.4 million enrolled in undergraduate programs and 2.7 million in graduate study. Of those 12.1 million students enrolled in four-year institutions, some 7.3 million or about 60 percent (7.3 million) attended public institutions, 30 percent (3.6 million) attended private not-for-profit colleges or universities, and 10 percent (1.2 million) attended private for-profit institutions. Another 7.1 million or 36.3 percent of post-secondary students were enrolled in two-year public or private institutions, predominantly public: More than 94 percent of the 7.1 million students (6.7 million) attended public, two-year institutions; just 5 percent attended private not-for-profit places, and only 0.7 percent were enrolled in private for-profit institutions. (Table 8C, below)

Finally, the remaining 342,000 students, or 1.7 percent of all people enrolled in U.S. post-secondary institutions, attended less-than-two-year public or private institutions. This segment of higher education is dominated by private for-profit institutions: Some 77 percent of the 342,000 students were enrolled in private, for-profit institutions; less than 20 percent attended public, less-than-two-year institutions; and the remaining 3.5 percent were enrolled in private not-for-profit institutions. (Table 4C, below)

[45] U.S. National Center for Education Statistics.

Table 8A. Numbers of Enrollments in Higher Education, By Class of Institution and Type of Programs[46]

Type of Programs	All Institutions	Public Institutions	Private Not-for-Profit Institutions	Private For-Profit Institutions
Four-year	12,131,855	7,331,849	3,626,547	1,173,459
Undergraduate	*9,394,747*	*5,951,146*	*2,501,295*	*942,306*
Graduate	*2,737,108*	*1,380,703*	*1,125,252*	*231,153*
Two-year	7,100,631	6,693,185	46,355	361,091
Less-than-two-year	341,909	67,075	11,821	263,013
Total Enrollment	19,574,395	14,092,109	3,684,723	1,797,563

Table 8B. Share of Higher Education Enrollments, By Type of Program, for Each Class of Institution[47]

Type of Programs	All Institutions	Public Institutions	Private Not-for-Profit Institutions	Private For-Profit Institutions
Four-year	62.0%	52.0%	98.4%	65.3%
Undergraduate	*48.0%*	*42.2%*	*67.9%*	*52.4%*
Graduate	*14.0%*	*9.8%*	*30.5%*	*12.9%*
Two-year	36.3%	47.5%	1.3%	20.1%
Less-than-two-year	1.7%	0.5%	0.3%	14.6%
Total	100.0%	100.0%	100.0%	100.0%

Table 8C. Share of Higher Education Enrollments, By Class of Institution, For Each Type of Program[48]

Type of Programs	All Institutions	Public Institutions	Private Not-for-Profit Institutions	Private For-Profit Institutions
Four-year	100.0%	60.4%	29.9%	9.7%
Undergraduate	*100.0%*	*63.3%*	*26.6%*	*10.0%*
Graduate	*100.0%*	*50.4%*	*41.1%*	*8.5%*
Two-year	100.0%	94.3%	0.7%	5.1%
Less-than-two-year	100.0%	19.6%	3.5%	76.9%
Total	100.0%	72.0%	18.8%	9.2%

Admission Requirements at the Three Major Classes of Institutions of Higher Education

In 2008, 2,351 institutions of higher education offered degree programs of four years or more, and another 1,683 institutions offered degree or certificate programs of two years or less. Public schools of higher education accounted for nearly 26 percent of four-year institutions and nearly 61 percent of two-year or less institutions; private not-for-profit schools of higher education comprised nearly 53 percent of all four-year institutions and just 5.3 percent of two-year or less institutions; and private for-profit schools accounted for more than 21 percent of four-year institutions and nearly 34 percent of two-years or less institutions. (Table 9, below)

[46] U.S. National Center for Education Statistics.
[47] U.S. National Center for Education Statistics.
[48] U.S. National Center for Education Statistics.

Admission requirements tend to be stricter or higher in four-year public and private not-for-profit institutions than in four-year private for-profit institutions. As a result, these private for profit institutions provide access to higher education for people who otherwise might not be able to enter public or private not-for-profit colleges and schools. In 2008, 43.3 percent of four-year private for-profit institutions offered open admissions, compared to 14.9 percent of four-year public institutions and 13.4 percent of four-year private not-for-profit institutions. Similarly, 5.8 percent of private for-profit four-year institutions based their admissions only on letters of recommendations, compared to 0.2 percent of four-year public institutions and 0.5 percent of four-year private not-for-profit institutions. Substantial shares of all three classes of institutions require the TOEFL (Test of English as a Foreign Language), including 42.5 percent of private for-profit institutions, 69.4 percent of private not-for-profit institutions, and 77.5 percent of public institutions. In addition, however, most public and private not-for-profit institutions consider college test scores, and substantial shares of both classes also weigh college preparatory classes, compared to negligible shares of private for-profit institutions.

Among two-year or less-than-two-year institutions of higher education, the admissions requirements for public institutions are less stringent than those for private not-for-profit or private for-profit institutions: 96.1 percent of those public institutions provide open admissions or admission based only letters of recommendation, compared to 47.8 percent of their private not-for-profit counterparts and 71.9 percent of their private for-profit counterparts.

Table 9. Selected Admissions Criteria, Institutions of Four Years or More and Two-Years or Less, Number and Percentage, By Class of Institution, 2008

	Four-year or More			Two-year or Less		
	Public	**Private not-for-Profit**	**Private for-Profit**	**Public**	**Private not-for-Profit**	**Private for-Profit**
No. of Institutions	609	1,243	499	1,023	90	570
Percent of institutions	25.9%	52.9%	21.2%	60.8%	5.3%	33.9%
	Percentage of Institutions					
Open admissions	14.9%	13.4%	43.3%	96.0%	46.7%	60.5%
Only recommendations	0.2%	0.5%	5.8%	0.1%	1.1%	11.4%
Some requirements	84.9%	76.0%	50.9%	3.9%	31.4%	28.1%
College preparatory	46.8%	25.2%	0.4%	0.7%	1.1%	0.0%
Test scores	80.5%	66.9%	1.8%	2.1%	14.4%	0.2%
TOEFL	77.5%	69.4%	42.5%	3.3%	28.9%	9.1%

The different admission requirements affect the profiles of the students who enroll in each class of institution. Those attending four-year private for-profit institutions are more likely to be male, older, working full-time, married, and come from households with lower incomes. (Table 10, below) Correspondingly, the typical student at a four-year public or private not-for-profit institution is slightly more likely to be female than male; much more likely to be young, unmarried and not working full-time; and somewhat less likely to come from a lower-income household. So, for example, more than 70 percent of the students enrolled in four-year public and private not-for-profit institutions are under 25 years old, compared to less than 40 percent of those attending four-year private, for-profit institutions. Similarly, more than 40 percent of those enrolled in four-year private for-profit institutions are married, compared to between 15 and 16 percent of those attending their public or private, not-for-profit counterparts. And nearly 53 percent of students enrolled in four-year private for-profit institutions work full time, compared to barely 29 percent of those attending four-year public institutions and less than 33 percent of those attending four-year private not-for-profit institutions.

The contrasts in student profiles are different for two-year or less institutions than for four-year institutions. Among all those enrolled in two-year-or-less institutions, the students attending private for-profit institutions resemble more closely resemble those in public institutions, while both contrast with students enrolled in corresponding private not-for-profit institutions. This almost certainly reflects the similar admissions requirements at two-year-or-less public and private for profit institutions. A larger share of women attended in 2-year public and 2-year private-for-profit institutions than in private not-for-profit institutions. The age distribution is relatively similar in all three types of 2-year educational institutions: 60-70 percent is between 17 and 24 years old. Between 70 percent and 90 percent of students enrolled in 2-year public and private institutions is never married. While the majority of students enrolled in 2-year public and 2-year private not-for-profit worked part-time, the majority of students enrolled in 2-year private for-profit did not work. Annual family incomes of more than 45 percent of students enrolled in 2-year private not-for-profit and 2-year private for-profit were less than $25,000 compared to 47 percent of students enrolled in 2-year public institutions had more than $50,000 annual family income. (Table 10, below)

Table 10. Selected Characteristics of Enrollments, By Level and Class of Institution, Percentage of Institution in 2008

	Four-Year or More			Two-Year or Less		
	Public	Private Not-for-Profit	Private for-Profit	Public	Private Not-for-Profit	Private for-Profit
Men	44.6%	47.5%	50.7%	43.1%	54.5%	34.6%
Women	55.4%	52.5%	49.3%	56.9%	45.5%	65.4%
Age						
17-24 years	72.6%	70.0%	39.6%	71.7%	62.1%	60.1%
25-34 years	20.9%	20.6%	29.5%	17.7%	28.8%	23.2%
35-44 years	3.8%	6.2%	22.7%	6.0%	9.1%	10.6%
45-54 years	1.7%	2.6%	5.3%	3.6%	0.0%	5.3%
55-64 years	0.7%	0.1%	2.9%	0.8%	0.0%	0.8%
65 and older	0.2%	0.4%	0.0%	0.2%	0.0%	0.0%
Marital Status						
Married	15.1%	16.3%	40.1%	16.7%	4.5%	16.5%
Not married	3.8%	4.5%	11.6%	7.7%	4.5%	14.1%
Never married	81.1%	79.2%	48.3%	75.6%	90.9%	69.2%
Employment Status						
Not Working	35.6%	39.5%	18.4%	32.2%	28.8%	42.4%
Work full time	29.1%	32.9%	52.7%	33.5%	18.2%	23.8%
Work part time	35.3%	27.6%	29.0%	34.3%	54.5%	33.8%
Family income						
Under $25,000	31.1%	22.9%	38.6%	28.4%	45.5%	45.8%
$25,000-$50,000	19.3%	20.4%	19.3%	24.7%	22.7%	18.7%
$50,000 & over	49.6%	56.8%	42.0%	46.9%	31.8%	35.6%

Graduation Rates at the Three Major Classes of Institutions of Higher Education

The Department of Education calculates graduation rates for the three classes of institutions and types of programs by collecting data on full-time, first-time undergraduate students who begin college in a particular year and tracking their graduation status at 100 percent of the normal time to complete their studies, 150 percent of that time, and 200 percent of that time. For students beginning their studies at four-year institutions in the year 2000, for example, the normal year to complete their degree would be 2004, with 2006 and 2008 corresponding to 150 percent and 200 percent of the normal completion time. For those entering two-year and less-than-two-year institutions in the year 2004, the normal year to complete their degree or certificate would be 2006, and 2007 and 2008 would be the years corresponding to 150 percent and 200 percent of their normal completion time.

These data show that different classes of institutions graduate different shares of students in normal or extended time, without distinguishing at-risk or high-risk students as other studies have done. Across all four-year degree programs, for example, private not-for-profit institutions report the highest graduation rates, while private for-profit institutions report substantially lower graduation rates. (Table 11, below) However, among students enrolled in two-year institutions, private for-profit institutions have higher graduation rates than either private not-for-profit institutions or, far behind, public institutions. This finding is notable, because private for-profit and public two-year institutions have similar admission criteria; yet, the students attending the private for-profit two-year institutions are 230 percent more likely to graduate than students who attend public two-year institutions. The highest graduation rates at every class of institution are recorded for students attending less-than-two-year institutions: Some 80 percent of students pursuing certificates in those programs at public and private not-for-profit institutions graduate within 200 percent of the normal time, as do about 70 percent of the students enrolled in such programs at private for-profit institutions.

Table 11. Graduation Rates and Completion Time, by Class of Institution and Type of Program, Students First Enrolling in 2000 and 2004[49]

	Total	Public	Private Not-for-Profit	Private for-Profit
Four-Year Institutions				
Graduate on normal schedule	36.1%	28.9%	50.4%	26.8%
Graduate within 150% of normal time	57.6%	54.7%	64.5%	33.9%
Graduate within 200% of normal time	60.6%	58.3%	66.4%	37.8%
Two-Year Institutions				
Graduate on normal schedule	18.9%	11.5%	41.7%	42.0%
Graduate within 150% of normal time	31.4%	22.0	53.3	61.2
Graduate within 200% of normal time	37.3%	28.4	58.1	65.4
Less-than-Two-Year Institutions				
Graduate on normal schedule	47.3%	57.3%	54.1%	45.8%
Graduate within 150% of normal time	66.9%	71.2%	73.6%	66.1%
Graduate within 200% of normal time	71.5%	80.1%	80.0%	70.1%

[49] U.S. National Center for Education Statistics.

V. Sources of Funding for the Three Classes of Institutions of Higher Education

In 2008, post-secondary educational institutions in the United States generated almost $500 billion in revenues or resources for and from their enrollments of some 20 million students. These resources covered the costs of educating more than 14 million students in public institutions, some four million students in private not-for-profit institutions, and two million students enrolled in private for-profit institutions of higher education. The total revenues, per-enrolled student, vary across both the classes of institution and their four-year, two-year and less-than-two-year programs. For-profit institutions generally collect less revenues per-student than public or private non-profit institutions, especially among four-year institutions. In 2008, four-year private not-for-profit institutions had revenues equal to $38,261 per-enrollment compared to $29,386 per-enrollment for four-year public institutions and just $10,375 per-enrollment for four-year private for-profit institutions. However, across two-year institutions, revenues per-enrollment were equal to $13,200 and $13,700, respectively, at private for-profit and not-for-profit institutions, compared to $7,530 for public institutions. Finally, much of these remaining differences recede for less-than-two-year institutions, with total revenues per-student coming to $12,654 at private not-for-profit institutions, $11,878 at public institutions, and $11,692 at private for-profit institutions.

The revenue sources for the three types of institutions also vary widely. As we will see, public institutions rely mainly on direct government appropriations, grants and contracts, which account for 45.1 percent of the total revenues of four-year public institutions, 69.5 percent of the revenues of public two-year institutions, and 71.8 percent of the revenues of less-than-two-year public institutions. Tuition and fee payments by students and their families account for only 16 percent to 17.6 percent of the total revenues of public institutions. Private not-for-profit four-year and two-year institutions depend much more than their public counterparts on tuition payments and other private sources such as investment income and paid services, and less on direct government support. Among four-year private not-for-profit institutions, 36.3 percent of resources came from tuitions, 51.2 percent from other private sources, and only 12.5 percent from government. Among two-year private not-for-profit institutions, 57.3 percent of their resources came from tuition payments, 25.4 percent from other private sources, and just 17.3 percent from government. Only among less-than-two-year private not-for-profit institution do the sources shift significantly: 43.9 percent of their resources came from tuitions, but only 16.8 percent from other private sources, and 39.4 percent from government.

The pattern of funding for private for-profit institutions is quite different. Tuitions are their primary sources of revenues: For four-year, two-year and less-than-two-year private for-profits, tuition payments account, respectively, for 88.3 percent, 83.8 percent and 74.8 percent of all resources. Direct government grants, payments and contracts play a very minor role, compared to public and private not-for-profit institutions: These direct payments account, respectively, for 5.5 percent of the resources of four-year private for-profits, 8.2 percent of their two-year counterparts, and 10.6 percent of the resources of their less-than-two-year counterparts.

These findings have an important caveat: The tuition data include financial aid such as federal, state and local and institutional grants and educational loans that go towards students' tuition. The shares of resources contributed by government discussed here do not include these indirect sources, which we will examine in detail later. It is worth noting that students at all three classes and types of institutions receive Federal grants averaging just under $2,900 to just under $4,000. (Table 12, below) Students at four-year for-profit institutions receive smaller federal grants ($3,030) than students at four-year public or private not-for-profit institutions ($3,675 and $3,960, respectively). However, the order changes for students at two-year and less-than-two-year institutions, with recipients at private for-profit institutions receiving federal grants smaller than those of recipients at private not-for-profit institutions, but slightly larger than those of recipients at public institutions.

The same patterns are evident across the three classes of institutions with regard to state and local grants to students. Here, too, the average state and local grant to recipients at four-year private for-profit institutions is smaller than the average grant to recipients at public or private not-for-profit institutions. However, at two-year and less-than-two-year institutions, recipients at the private for-profits receive larger average state and local grants than recipients at public institutions, but smaller average state and local grants than recipients at private not-for-profit institutions. However, as we will see, a smaller share of students at private for-profit institutions receive state and local grants; and therefore the average state and local grant per-student enrolled is less at private for-profit institutions than at either public or private not-for-profit institutions.

Table 12: Average Financial Aid Grants from Federal, State and Local Governments For Students Receiving Such Assistance, by Class and Type of Institution, 2008[50]

	Federal Grants to Students			State and Local Grants
	Pell	Other	All	
Public Institutions				
Four-Year	$3,085	$1,110	$3,675	$2,963
Two-Year	$2,947	$732	$3,017	$1,348
Less-Than-Two-Years	$2,778	$2,625	$2,891	$2,276
Private Not-for-Profit Institutions				
Four-Year	$2,947	$1,671	$3,960	$3,391
Two-Year	$2,898	$974	$3,145	$3,203
Less-Than-Two-Years	$2,931	$1,339	$3,224	$3,243
Private For-Profit Institutions				
Four-Year	$2,939	$805	$3,030	$2,922
Two-Year	$3,045	$634	$3,137	$2,988
Less-Than-Two-Years	$2,943	$335	$3,008	$2,877

Next, we analyze the resources and their source at the three classes of institutions, disaggregated by the type of institution – four-year, two-year and less-than-two-year.

Four-Year Institutions

Across the three classes of four-year institutions, the greatest distinction in the resources of four-year institutions lies in the dimensions of those resources, per-student, which in turn

[50] National Center for Education Statistics. The estimates of average Pell, other federal, all federal, and state and local grants were calculated by dividing the total grants awarded by the total number of recipients,

substantially reflects the much greater direct resources provided by government for public institutions and the greater resources provided by private sources other than tuition for private not-for-profit institutions. In fiscal year 2008, four-year private for-profit post-secondary educational institutions generated resources totaling $12.2 billion for student enrollments of 1,173,459. (Table 13, below) Compared to four-year public and private not-for-profit institutions, the four-year private for-profit institutions have to rely heavily on tuition and other student fees: More than 88 percent of those revenues came from tuition and other fees. The four-year for-profit institutions receive much smaller contributions from federal, state and local government grants, appropriations, and contracts, accounting for just 5.5 percent of their annual resources. Private sources other than tuition and fee payments – such as investment income and charges for certain goods and services such as athletic admissions or school-embossed paraphernalia – accounted for the remaining roughly 6 percent of their total revenues. On average, the total resources of an average four-year private for-profit institution were equivalent to $10,375 per-enrolled student, comprised of $9,162 in tuition and fees, $575 in direct government funding, and $638 from other private sources.

Four-year public and private not-for-profit institutions generated, respectively, $215.5 billion and $138.8 billion in total resources in 2008, for total student enrollments of 7,331,849 at public institutions and 3,626,547 at private non-profit institutions. (Table 13, below) These institutions have access to much greater resources that their private for-profit counterparts: Total resources were equivalent to $29,386 per-student at four-year public institutions and $38,261 per-student at private not-for-profit institutions, or three to four times the resources per-student available to private for-profit institutions. Much of the difference between the resources of public and private-for profit institutions reflects dramatically different levels of direct federal, state and local grants, appropriations and contracts: These sources account for 45 percent of the total resources of four-year public institutions compared to 5.5 percent for private for-profit counterparts. Tuitions and fees, which account for 88 percent of the resources of four-year private for-profit institutions, represent less than 18 percent of the funding of four-year public institutions. These public institutions also have access to other, much larger private sources of funds – endowment income, income from non-academic, and so on: They contribute 37 percent of the annual resources of four-year public institutions, compared to 6 percent for their private for-profit counterparts. These other private sources of support account for the majority of funding for four-year private not-for-profit institutions – fully 51 percent – followed by tuitions and fees at 36 percent and direct government support at just 12.5 percent. Therefore, the sources of the $38,261 expended, on average, per-student by four-year private not-for-profit institutions were $19,589 from other private sources, $13,907 from tuition and fees, and $4,765 from direct government support.

In summary, four-year for-profit institutions are forced to rely much more on tuition and fees, because, on a per-student basis, they receive less than one-eighth the direct support from government grants, appropriations and contracts as four-year private, non-profit institutions, and one-twenty-third as much direct support from those government sources as public institutions. Similarly, on a per student basis, four-year for-profit institutions receive one-seventeenth the support from other private sources as four-year public institutions and less than one-thirtieth as much support from those sources as four-year private not-for-profit institutions.

Table 13. Sources of Revenues of Four-Year Institutions of Higher Education, By Source and Class of Institution, Fiscal Year 2008[51]

	Public	Private Not-for-Profit	Private For Profit
In millions of U.S. dollars			
Tuition	37,839.1	50,432.9	10,751.1
Government	97,070.4	17,280.1	674.8
Federal	29,357.2	14,915.5	644.1
State & Local	67,713.2	2,361.6	30.7
Private	80,545.7	71,041.1	748.5
Total	$215,455.2	$138,754.1	$12,174.4
Percent of Total Annual Resources			
Tuition	17.6	36.3	88.3
Government	45.1	12.5	5.5
Federal	13.6	10.8	5.3
State & Local	31.4	1.7	0.3
Private	37.4	51.2	6.1
Total	100.0%	100.0%	100.0%
In U.S. Dollars Per Student Enrolled			
Tuition	$5,161	$13,907	$9,162
Government	13,240	4,765	575
Federal	4,004	4,114	549
State & Local	9,235	651	26
Private	10,986	19,589	638
Total	$29,386	$38,261	$10,375
Enrolled Students	7,331,849	3,626,547	1,173,459

Again, these data do not include the full impact of federal, state and local grants via financial aid for students to help cover their tuition and fees. These data show that students awarded such assistance at four-year private not-for-profit institutions received the largest average federal grants, at $3,960, and the largest average state or local grants at $3,391. (Table 12, above) Students awarded such assistance at four-year public institutions received the second largest federal grants, averaging $3,675, and the second largest grants from state and local governments at $2,963. Students awarded such grants at four-year, private for-profit institutions received the smallest average assistance from these sources, an average federal grant of $3,030 and average state and/or local grants of $2,922.

Two-Year Institutions

The differences in resources and their sources are significant across the three classes of two-year institutions, but in less stark form than for four-year institutions. In 2008, two-year for-profit institutions of higher education reported annual resources of $4.8 billion and total enrollment of 361,091 students. (Table 14, below) Those levels were modest compared to their public counterparts, which generated annual resources totaling some $50.4 billion and reported enrollments of 6.7 million students. Private not-for-profit institutions have a relatively modest presence in two-year institutions, reporting total annual resources of just $633 million in 2008

[51] National Center for Education Statistics.

for enrollments of 46,335 students. Yet, on a per-student basis, the resources of two-year institutions were comparable at private not-for-profit and private for-profit institutions, and both were considerably greater than the per-student resources for public institutions: These resources averaged $13,658 per-student at two-year private not-for-profit institutions and $13,176 per-student at two-year private for-profit institutions, compared to $7,530 per-student at two-year public institutions.

As with four-institutions, direct government support plays a much larger role for two-year public institutions, than for two-year private not-for-profit or two-year private for-profit institutions. Two-year public institutions received more than $35 billion in government appropriations, grants and contracts, representing nearly 70 percent of their total revenues in 2008. (Table 14, below) More than 80 percent of this direct government funding came from state and local sources, which provided 55.5 percent of the resources of two-year public institutions, while the federal government provided 14 percent of those resources. This direct government assistance to two-year public institutions averaged $5,233 per-enrolled student.

By contrast, federal, state and local government direct funding accounted for just a little more than 17 percent of the total resources of two-year private not-for-profit institutions, averaging $2,359 per-enrolled student, and just over 8 percent of those resources for two-year private for-profit institutions, or an average of $1,083 per-student. (Table 14 below) Therefore, direct government support per-student at two-year private for-profit institutions was less than half as much as at two-year private not-for-profit institutions and barely 20 percent of the level at two-year public institutions. While most government assistance to two-year private institutions came from federal sources -- just over 12 percent of the total resources of two-year, private non-profit institutions and 7.4 percent of the total resources of two-year for-profit institutions – both still represented a smaller share than the 14 percent of total resources received from federal sources by two-year public institutions. Two-year, for-profit institutions also receive the least direct support from state and local governments: Less than one percent of their total resources, compared to 5 percent of the total resources of two-year private not-for-profit institutions and, as noted, 55.5 percent of the total resources of two-year public institutions.

As with four-year institutions, the low levels of direct government assistance force two-year private for–profit institutions and, to a lesser degree, two-year private not-for-profit institutions, to rely heavily on tuition and fees. In 2008, tuitions and fees accounted for nearly 84 percent of the total resources of two-year private for-profit institutions, averaging $11,037 per-enrolled student, and just over 57 percent of the total resources of two-year private not-for-profit institutions, averaging $7,832 per-student. By contrast, tuition and fees represented just 16 percent of the annual resources of two-year public institutions, averaging $1,204 per-enrolled student. As with four-year institutions, other private sources of funding also play a small role at two-year private for-profit institutions, contributing just 8 percent of their total resources or an average of $1,056 per-enrolled student. By comparison, other private sources of funding accounted for more than 25 percent of the total resources of two-year private not-for-profit institutions, averaging $3,467 per-student, and 14.5 percent of the total resources of two-year public institutions, or $1,093 per-enrolled student.

Table 14. Sources of Revenues of Two-Year Institutions of Higher Education, By Source and Class of Institution, Fiscal Year 2008[52]

	Public	Private Not-for-Profit	Private For Profit
In Millions of U.S. dollars			
Tuition	$8,061.9	$363.0	$3,985.3
Government	35,022.5	109.4	391.2
Federal	7,039.4	77.9	350.6
State & Local	27,983.1	31.4	40.6
Private	7,312.6	160.7	381.2
Total	$50,397.1	$633.1	$4,757.7
Percent of Total Annual Resources			
Tuition	16.0%	57.3%	83.8%
Government	69.5	17.3	8.2
Federal	14.0	12.3	7.4
State & Local	55.5	5.0	0.9
Private	14.5	25.4	8.0
Total	100.0	100.0	100.0
In U.S. Dollars Per Student Enrolled			
Tuition	$1,204	$7,832	$11,037
Government	5,233	2,359	1,083
Federal	1,052	1,681	971
State & Local	4,181	678	113
Private	1,093	3,467	1,056
Total	$7,530	$13,658	$13,176
Enrolled Students	6,693,185	46,335	361,091

Again, these data do not reveal the impact of federal, state and local student grants which go for tuition and fees. Those data show that students awarded such assistance received generally comparable amounts from the federal government at all three classes of institutions: Students at two-year institutions receiving federal assistance in 2008 collected, on average, grants of $3,145 at private not-for-profit institutions, $3,017 at public institutions, and $3,137 at private for-profit institutions. (Table 12, above) However, the average state and local grants for students awarded such assistance was less at two-year public institutions, at $1,348 per-recipient, than at two-year private not-for-profit counterparts: Students awarded state or local grants at two-year private for-profit institutions received support averaging $2,988 per recipient at two-year private, for profit institutions and $3,203 at two-year private not-for-profit institutions. This difference reflects both the higher levels of direct state and local government support for two-year public institutions and their lower tuitions.

Less-than-Two-Year Institutions

For-profit institutions dominate higher education at less-than-two-year institutions. In 2008, less-than-two-year for-profit institutions reported annual resources of nearly $3.1 billion

[52] National Center for Education Statistics.

and total enrollment of 263,013 students. (Table 15, below) By comparison, less-than-two-year public institutions reported total revenues of $797 million for 67,075 students, and less-than-two-year private, non-profit institutions reported revenues of just $150 million for 11,821 students. However, the total resources per-student were generally comparable at the three classes of institutions, averaging $11,692 at less-than-two-year private for-profit institutions, $11,878 at less-than-two-year public institutions, and $12,654 at less- than-two-year private not-for-profit institutions.

As with the classes of four-year and two-year institutions, direct government support for less-than-two-year institutions plays the largest role at public institutions and the smallest role at year private for-profit institutions. Less-than-two-year public institutions received nearly 72 percent of their total annual resources, more than $572 million in 2008, through direct government appropriations, grants and contracts. (Table 15, below) This assistance averaged $8,529 per-student. Most of this direct government funding for less-than-two-year public institutions came, as expected, from state and local governments: State and local governments contributed 60.5 percent of the total annual resources of these public institutions, while the federal government provided about 11 percent.

Direct government appropriations, grants and contracts play a less prominent role in the funding of less-than-two-year private not-for-profit institutions and only a modest role at less-than-two-year private for-profit institutions. In 2008, federal, state and local government direct funding accounted for a little more than 39 percent of the total annual resources of less-than-two-year private not-for-profit institutions, averaging $1,980 per-enrolled student or just 23 percent of the average levels at less-than-two-year public institutions. This direct government funding accounted for less than 11 percent of the total resources of less-than-two-year private for-profit institutions, averaging only $1,241 per-enrolled student, or less than two-thirds of the direct government assistance per-student at less-than-two-year private not-for-profit institutions and less than 15 percent of the direct government assistance for per-student at less-than-two-year public institutions. In further contrast to their public counterparts, most of this assistance to less-than-two-year private institutions from federal sources. Direct federal assistance accounted for about 25 percent of the total resources of less-than-two-year private not-for-profit institutions and 10 percent of the total resources of less-than-two-year for-profit institutions. Less-than-two-year for-profit institutions also received much lower direct support from state and local governments – less than one percent of their total annual resources, compared to nearly 15 percent for less-than-two-year private not-for-profit institutions and the 60.5 percent level for their public counterparts.

As with four-year and two-year institutions, these low levels of direct government assistance for less-than-two-year private for-profit institutions are offset by a larger role for tuition and fees. Tuitions and fees in 2008 accounted for nearly 75 percent of the total annual resources of less-than-two-year private for-profit institutions, averaging $8,743 per-enrolled student. (Table 15, below) By comparison, tuition and fees accounted for nearly 44 percent of the total resources of less-than-two-year private non-profit institutions, averaging $5,549 per-student, and 16.5 percent of the resources of less-than-two-year public institutions, averaging $1,958. Unlike four-year and two-year institutions, however, other private sources of funding play the smallest role at less-than-two-year public institutions, followed by less-than-two-year private for-profit institutions and then by less-than-two-year private not-for-profit institutions. These other private sources contributed 14.6 percent of the total resources of less-than-two-year private for-profit institutions, averaging $1,708 per-enrolled student. By comparison, these sources accounted for nearly 17 percent of the total resources of less-than-two-year private not-for-profit institutions, averaging $2,125 per-enrolled student, and less than 12 percent of the total resources of less-than-two-year public institutions, averaging $1,391 per student.

Table 15. Sources of Revenues of Less-Than-Two-Year Institutions of Higher Education, By Source and Class of Institution, Fiscal Year 2008[53]

	Public	Private Not-for-Profit	Private For Profit
In Millions of U.S. dollars			
Tuition	$131.3	$65.6	$2,299.5
Government	572.1	58.9	326.4
Federal	89.8	36.9	307.0
State & Local	482.3	22.0	19.4
Private	93.3	25.1	449.2
Total	$796.7	$149.6	$3,075.1
Percent of Total Annual Resources			
Tuition	16.5%	43.9%	74.8%
Government	71.8	39.4	10.6
Federal	11.3	24.7	10.0
State & Local	60.5	14.7	0.6
Private	11.7	16.8	14.6
Total	100.0	100.0	100.0
U.S. Dollars Per Students Enrolled			
Tuition	$1,958	$5,549	$8,743
Government	8,529	1,980	1,241
Federal	1,339	3,123	1,167
State & Local	7,190	1,857	74
Private	1,391	2,125	1,708
Total	$11,878	$12,654	$11,692
Enrolled Students	67,075	11,821	263,013

Again, these data do not include the impact of federal, state and local grants of financial aid for students' tuition and fees. These data show that students awarded such assistance at less-than-two-year private not-for-profit institutions received the largest grants, averaging $3,224 in federal grants and $3,243 in state or local grants. (Table 12, above) The average federal grants for students awarded such assistance at less-than-two-year private for-profit institutions was modestly less at $3,008, and lower still at less-than-two-year public institutions at $2,891. The average state and local grants for students awarded such assistance was also modestly lower at less-than-two-year for-profit institutions at $2,877 than their private not-for-profit counterparts, and even lower at less-than-two-year public institutions at $2,276. The lower government grants to students at less-than-two-year public institutions reflect both their lower tuitions and their greater direct state and local assistance for those institutions, compared to both less-than-two year private non-profit and for-profit institutions.

[53] National Center for Education Statistics.

VI. Financial Aid to Students by Class of Institutions

In this section, we will analyze the levels of financial aid which students receive at each class and type of institution from those institutions, from federal, state and local governments, and from private sources. This assistance helps millions of students finance their tuitions and fees, room and board, books and supplies, and transportation.

Several patterns in such assistance are evident in the data. For students receiving such assistance, the largest aid goes to those attending private not-for-profit institutions, across all three types of institutions (four-year, two-year and less-than-two-year). For four-year institutions, students at private for-profit institutions receive the smallest federal and state and local tuition grants, followed by students at public institutions. For two-year and less-than-two-year institutions, however, students at all three classes of institutions receive generally comparable federal grants, but those attending public institutions receive significantly smaller state and local grants. This reflects the disproportionate direct state and local support provided to public two-year and less-than-two-year institutions. In both classes, students at private not-for-profit institutions receive the largest state and local tuition and living grants, followed by students at private for-profit institutions. As we will see in the following section, students at private for-profit institutions make up their relative shortfall in both direct and indirect government grants with larger federal loans.

Government grants and loans are based on metrics of financial need and expected family contributions determined by the Department of Education using standard formulas established by Congress, and reported through the *Free Application for Federal Student Aid.* The basic elements in the standard formulas include the income and assets of the student and parents for dependent students, household size, and number of family members attending post-secondary institutions. In 2010, the Department of Education provided more than $116 billion in grants for postsecondary education.[54]

The main federal student-assistance programs are Pell Grants and Stafford Loans. Pell grants are available only to undergraduate students enrolled at least half-time in programs that lead to certificates or associate or bachelor's degrees, and for a maximum period of 18 semesters. Pell grants provide the largest federal student grants, of up to $5,550 in the 2010-2011 academic year. The other federal grants programs include the Academic Competitiveness Grant program (providing maximum grants of $750 in the first year and $1,300 the second year), and three other programs providing maximum grants of $4,000 per-student (the Federal Supplemental Education program, the National Science and Mathematics Access to Retain Talent Grant program, and the Teacher Education Assistance for College and Higher Education Grant program). Recipients of Pell grants and other federal grants do not have to repay the grants.[55]

The federal Stafford Loan Program provides loans to both undergraduate and graduate students which must be repaid. Depending on financial need, students in this program can borrow at federally-subsidized rates, and with the federal government covering the entire interest while the student remains in school and during a subsequent deferment period and part of the

[54] U.S. Department of Education.
[55] U.S. Department of Education, Federal Student Aid, Grant Programs Fact Sheet.

interest during the repayment period. Students may also be eligible for unsubsidized loans based on the cost of attending and other financial aid they receive. Unlike the subsidized Stafford loans, student borrowers are responsible for their interest payments from the time they receive these unsubsidized loans. The current interest rate on unsubsidized loans disbursed on or after July 1, 2006 is fixed at 6.8 percent compared to a fixed rate of 4.5 percent for Stafford loans disbursed on or after July 1, 2010. The maximum Stafford loan depends on a student's dependency status and level of education.[56] Graduate and professional students, independent students, and parents of dependent undergraduate students can take out federal Plus Loans in amounts up to the cost of attendance less other financial assistance.[57]

This analysis carries one caveat, tied to the way the government reports data on higher education. While the Department of Education distinguishes between full-time and part-time students in their on student enrollments at each class and type of institution, their data on financial aid are classified by class and type of institution without distinguishing full-time and part-time students. We assume, therefore, that all students are full-time students. Since the share of students who study part-time is relatively larger at for-profit institutions, this data issue produces estimates that will overstate the level financial aid per-student at those institutions, compared to their public and not-for-profit counterparts.

Four-Year Institutions

Among students enrolled in four-year institutions of higher education, those attending private not-for-profit institutions are most likely to receive financial assistance of some kind, and among those who receive assistance, collect the largest federal and state or local grants. Students attending private for-profit institutions are least likely to receive financial assistance of some kind and, among those who do receive it, collect the smallest federal and state or local grants. (Table 16, below) Students at private for-profit institutions also are less likely to receive financial grants from their institutions, and the levels of such grants for those who do receive them are much lower than those provided by four-year private not-for profit and public institutions. Students attending private for-profit institutions, however, offset some these disparities by greater use of federal loans and larger federal loans for those who use them. Across all students at the three classes of four-year institutions, whether or not they were recipients of financial assistance, those attending private for-profit institutions again receive the smallest average federal, state or local and institutional grants, on a per-student enrolled basis, and consequently take out the largest federal loans.

The levels of student financial assistance and the likelihood of students' receiving it vary significantly across the three classes of four-year institutions. To begin, a significantly larger share of students at four-year private not-for-profit institutions, 86 percent, received assistance, compared to 77.5 percent of those attending four-year public institutions and a little over 76 percent of those studying at four-year private for-profit institutions. The composition of this

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56 The maximum loans for undergraduate students are $9,500 for the first year (including up to $3,500 at the subsidized rate), $10,500 for the second year (up to $4,500 at the subsidized rate), and $12,500 for the remainder of their program (up to $5,500 at the subsidized rate). For graduate students, the maximum amount is $20,500 per-year (including up to $8,500 at the subsidized rate), with a lifetime cap of $138,500 (up to $65,500 at subsidized rates).
57 U.S. Department of Education, Federal Student Aid Programs Stafford Loans.

assistance also varied significantly across the classes of institutions: Recipients at the private for-profit institutions collected an average of $5,952 in government grants, about 10 percent less than the average $6,638 in government grants received by recipients at four-year public institutions and nearly 20 percent less than the average $7,351 received by recipients at private not-for-profit institutions. While a much larger share of students attending four-year private for-profit institutions received federal grants, almost 52 percent compared to about 27 percent of recipients attending private not-for-profit institutions and 28 percent attending public institution, far fewer students at the private for-profit institutions received state or local grants: Barely 7 percent compared to 30 percent of those attending private not-for-profit institutions and 37.5 percent of students attending public institutions.

The largest differences across the three classes of institutions arise in the grants from the institutions themselves: Recipients attending the four-year private for-profit institutions received average grants of $1,235 from their own institutions, less than one-third of the $3,956 average grant to recipients at the public institutions and barely 10 percent of the $11,539 average grants to recipients attending the private not-for-profit institutions. (Table 16, below) These differences were bridged in part by substantially larger loans to recipients attending the private for-profit institutions, averaging $8,799 compared to average loans of $5,190 received by recipients at the public institutions and average loans of $6,435 received by recipients attending the private not-for-profit institutions. Moreover, nearly 68 percent of students attending the four-year private for-profit institutions received loans compared to 60 percent of those attending the private not-for-profit institutions and just over 45 percent of students attending the public institutions.

Average assistance of nearly all types except loans are also consistently lower for four-year private for-profit institutions, when we calculate the assistance per-student enrolled instead of per-recipient. Counting all form of assistance, including loans, the average per-student is highest for four-year private not-for-profit institutions, at $14,629, followed by the private for-profit institutions at an average of $8,084 per-student and then by the public institutions at an average of $5,943 per-student. (Table 16, below) Nevertheless, government grants provide assistance of $2,147 per-student enrolled at the public institutions, compared to $2,076 per-student at the private not-for-profit institutions and $1,775 per-student at the private for-profit institutions. In fact, the average federal grant per-student is higher at the private for-profit institutions -- $1,565, compared to an average of $1,059 per-student at four-year private not-for-profit institutions and an average of $1,035 per-student at four-year public institutions. But state and local grants contribute much less to the private for-profit institutions – an average of $210 per-student compared to $1,017 per-student at the private not-for-profit institutions and $1,112 at the public institutions. Once again, the average institutional grant per-student is also much lower at the four-year private for-profit institutions. The differences, again, were bridged in part by much larger average loans: $6,056 per-student at private for-profit institutions compared to an average of $3,881 per-student at private not-for-profit institutions and $2,358 per-student at public institutions.

Table 16. Sources of Financial Assistance for Students at Four-Year Institutions, By Class of Institution, 2008[58]

	Public	Private Not-for-Profit	Private For-Profit
Average Amount Per Recipient			
Government Grants	$6,638	$7,351	$5,952
Federal Grants	$3,675	$3,960	$3,030
State & Local Grants	$2,963	$3,391	$2,922
Institutional Grants	$3,956	$11,539	$1,235
Loans to Students	$5,190	$6,435	$8,799
Federal	$4,130	$4,567	$7,529
Other	$8,273	$9,732	$9,701
Percent Receiving Assistance			
Financial Aid	77.5%	86.0%	76.2%
Federal Grants	28.2%	26.7%	51.6%
State & Local Grants	37.5%	30.0%	7.2%
Institutional Grants	36.3%	75.2%	20.5%
Loans to Students	45.4%	60.3%	68.8%
Federal	44.2%	58.3%	67.8%
Other	6.4%	12.5%	9.8%
Average Assistance Per Student Enrolled			
Financial Aid	$5,943	$14,629	$8,084
Government Grants	$2,147	$2,076	$1,775
Federal	$1,035	$1,059	$1,565
State & Local	$1,112	$1,017	$210
Institutional Grants	$1,438	$8,673	$253
Loans to Students	$2,358	$3,881	$6,056
Federal	$1,826	$2,665	$5,103
Other	$532	$1,217	$954

Two-Year Institutions

Looking at financial assistance for students enrolled in two-year institutions, large similarities are apparent in the incidence and levels of assistance to students at private not-for-profit and for-profit institutions. Comparable percentages of students at both classes of institution receive some form of financial assistance: 84.5 percent of those attending two-year private not-for-profit institutions, compared to just under 87 percent of those at private for-profit institutions. (Table 17, below) The contrast here is with two-year public institutions, where less than 63 percent of students receive aid. Disaggregating the elements of this assistance, we see that a larger share of students at two-year private for-profit institutions receive federal grants –64 percent compared to 52.5 percent of students at private not-for-profit institutions and 39 percent of those at public institutions. This is balanced by grants from state and local governments: Only 10 percent of students at two-year private for-profit institutions receive such support, compared to nearly 30 percent of students at private not-for-profit institutions and over 33 percent of those attending public institutions. The average size of the federal, state and local grants for these

[58] Figures are based on full-time, first-time degree/certificate-seeking undergraduates. National Center for Education Statistics and authors' estimates.

students is highest at private not-for-profits, $6,348, but only modestly so: Federal, state and local grants to students at two-year private for-profit institutions average $6,125. Government grants to students at two-year public institutions average $4,365, reflecting much lower tuitions.

Students at private not-for-profit institutions are also most likely to receive grants from those institutions, which on average are also much larger than the institutional grants provided by the other two classes. (Table 17 below) Thus, 35 percent of students in two-year private not-for-profit institutions receive grants from those institutions, averaging $4,122 per-recipient, compared to less than 11 percent of students at two-year public institutions who receive on average $1,442 per-recipient, and to the less than 8 percent of students attending private for-profit institutions who receive an average of just $894 per-recipient. These differences are offset through federal and other loans: A substantially larger share of students enrolled in two-year private-for-profit institutions receive federal loans. By contrast, less than 54 percent of those attending private not-for-profit institutions receive federal loans, averaging $5,059, and just 18 percent of those enrolled in public institutions at an average $3,355 per-recipient.

Table 17. Sources of Financial Assistance for Students at Two-Year Institutions, By Class of Institution, 2008[59]

	Public	Private Not-for-profit	Private For-Profit
Average Amount Per Recipient			
Government Grants	$4,365	$6,348	$6,125
Federal Grants	$3,017	$3,145	$3,137
State & Local Grants	1,348	3,203	2,988
Institutional Grants	1,442	4,122	894
Loans to Students	3,502	5,367	7,216
Federal	3,355	5,059	6,482
Other	4,197	6,144	6,762
Percent Receiving Assistance			
Financial Aid	62.6%	84.5%	86.9%
Federal Grants	39.3%	52.5%	64.2%
State & Local Grants	33.4%	29.8%	10.4%
Institutional Grants	10.6%	35.2%	7.9%
Loans to Students	18.7%	53.6%	77.9%
Federal	18.2%	52.6%	73.3%
Other	1.1%	3.5%	12.9%
Average Assistance Per Student Enrolled			
Financial Aid	$2,444	$6,934	$8,018
Government Grants	1,635	2,606	2,324
Federal	1,186	1,650	2,012
State & Local	450	956	311
Institutional Grants	153	1,451	71
Loans to Students	656	2,877	5,624
Federal	612	2,660	4,751
Other	44	217	873

[59] Figures are based on full-time, first-time degree/certificate-seeking undergraduates. National Center for Education Statistics and authors' estimates.

Finally, when these various forms of student assistance are distributed across the entire enrollments of these institutions, the same patterns persist. The average federal grant is highest at two-year private for profit institutions, followed by private not-for-profit institutions; but those private for-profit institutions also receive the lowest state and local grants, calculated on a per-student basis, and provide the smallest institutional grants, again figured per-student. These disadvantages are offset by higher federal and other loans, again figured on a per-student basis. Counting all form of assistance on a per-student basis (not per-recipient), students at two-year private for–profit institutions receive the greater average support at $8,018 per-student, compared to $6,934 per-student at private not-for-profit institutions and just $2,444 per-student at two-year public institutions. (Table 17, above)

Less-than-Two-Year Institutions

Financial assistance for students enrolled in less-than-two-year institutions follows the general patterns of assistance for students enrolled in two-year institutions: Among students who receive various forms of assistance, those attending private not-for-profit institutions receive, on average, the largest federal grants ($3,224), the largest state and local grants ($3,243), and the largest grants from their own institutions ($2,404). (Table 18, below) Students at less-than-two-year private for-profit institutions who receive assistance rank next in federal grants ($3,008) and state and local grants ($2,877), and, as usual, last in institutional grants ($457). Finally, students who receive tuition assistance to attend less-than-two-year public institutions receive slightly smaller federal, state and local grants than recipients at private for-profit institutions, but larger grants from their own institutions than those at the private-for-profit institutions. Some of these disparities are offset by federal loans, which students at the private for-profit institutions rely upon to a significantly greater extent (average value $5,579) than those at public institutions ($5,149) and private not-for-profit institutions ($5,091).

In a pattern similar to the one observed for two-year institutions, a larger share of students at private for-profit institutions receive financial assistance of some kind: 85 percent, compared to 78.5 percent of students attending less-than-two-year private not-for-profit institutions and just over 55 percent of those enrolled in less-than-two-year public institutions. (Table 18, below) Similar disparities are evident in the percentage of students receiving federal grants across these institutions – almost 69 percent of those attending the private for-profit institutions, compared to 65 percent of those attending private not-for-profits and just over 37 percent of those enrolled in public institutions. A new disparity emerges in state and local grants to students, who go to barely 3 percent of those attending less-than-two-years private for profit institutions compared to 17 percent of those in the public institutions and 18 percent of those attending private not-for-profit institutions. The pattern become familiar again in the area of loans: A considerably larger share of those enrolled in private for-profit institutions take out federal or other loans – 71 percent, compared to 37 percent of students at private not-for-profit institutions and just 21 percent of those at public institutions.

Last, when the different forms of student assistance are distributed across the total student bodies of these institutions, the same patterns persist. Across the class of less-than-two-year institutions, the largest federal grants per-student occur at private not-for-profit institutions ($2,681), followed by private for-profits ($2,166) and then public institutions ($1,474). (Table

18, below) The differences in average state and local grants become greater on a per-student basis, because so few students at less-than-two-year private for-profit institutions receive those grants: The average state and local grant, per-student, is just $98 at private for-profit institutions, about one-fourth the level for public institutions ($397) and one-sixth the level for private not-for-profit institutions ($598). The differences in average federal loans also become greater on a per-student basis, this time because a significantly larger share of students at private for-profit institutions receive these loans. Thus, the average federal loan per-student enrolled is $3,802 at less-than-two-year private for-profit institutions, compared to $1,852 per-student at private not-for-profit and $1,062 at their public counterparts

Table 18. Sources of Financial Assistance for Students at Less-than-Two-Year Institutions, By Class of Institution, 2008[60]

	Public	Private Not-for-profit	Private For-Profit
Average Amount Per Recipient			
Government Grants	$5,167	$6,467	$5,885
Federal Grants	$2,891	$3,224	$3,008
State & Local Grants	2,276	3,243	2,877
Institutional Grants	980	2,404	457
Loans to Students	5,183	5,275	6,104
Federal	5,149	5,091	5,579
Other	4,680	7,839	3,863
Percent Receiving Assistance			
Financial Aid	55.4%	78.5%	85.0%
Federal Grants	37.3	64.6	68.7
State & Local Grants	17.4	18.4	3.4
Institutional Grants	4.9	8.6	7.3
Loans to Students	21.3	36.9	70.9
Federal	20.6	36.4	68.1
Other	0.9	1.2	13.6
Average Assistance Per Student Enrolled			
Financial Aid	$2,625	$4,833	$6,527
Government Grants	1,474	2,681	2,166
Federal	1,077	2,083	2,068
State & Local	397	598	98
Institutional Grants	48	207	33
Loans to Students	1,103	1,946	4,328
Federal	1,062	1,852	3,802
Other	41	94	527

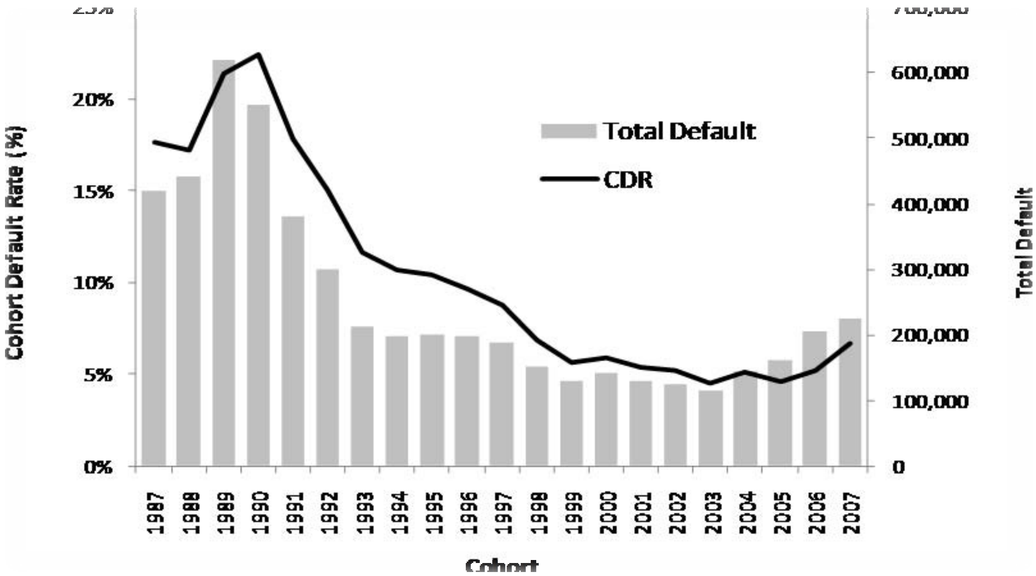
Default Rates and Subsidy Costs for Federal Student Loans

The default rates on federal student loans have been a matter of considerable concern since reaching record levels in the late 1980s and early 1990s, when 15 percent to more than 22 percent of student borrowers defaulted on this form of federal assistance. However, since that

[60] Figures are based on full-time, first-time degree/certificate-seeking undergraduates. National Center for Education Statistics and authors' estimates.

time, default rates have fallen sharply. (Figure 2, below) The average national student loan default rate for the last 20 years was 10.4 percent, and the rate for the 2007 "cohort" of borrowers — those whose first loan repayments came due between October 1, 2006 and September 30, 2007 -- was 6.7 percent.

Figure 2. Cohort Default Rate (CDR) and Total Default, 1987-2007[61]



The default rate on federal student loans over the three period 2005-2007 was even lower at 5.5 percent. However, default rates also vary by class of institution. We should expect higher default rates for students who attended private for-profit institutions because they come from less affluent households, a larger share of them take out federal loans, and their loans on average are larger than the average for student borrowers at public or private not-for-profit institutions. The data support this expectation: Over the period 2005-2007, 9.6 percent of student borrowers who had attended private for-profit institutions defaulted on their loans, compared to a default rate of 5.0 percent for student borrowers who had attended public institutions and 2.9 percent for those who had attended private not-for-profit institutions. (Table 19A, below) As a result, defaults on federal student loans by students who had attended private for-profit institutions are greater than the cost of students who attended public or private not-for-profit institutions. (Table 19B, below)

Default rates and the attendant costs also vary based on whether an institution is a four-year, two-year or less-than-two-year institution. Within all three classes of institutions – public, private not-for-profit, and private for-profit -- students who attended four-year institutions have had lower default rates than those who attended two-year or less-than-two-year institutions, and the attendant costs generally are correspondingly less. (Tables 19A and 19B, below) For example, the average default rate for students in the three cohorts, 2005, 2006 and 2007, who attended four-year private not-for-profit institutions was 2.8 percent compared to 7.0 percent for those who attended two-year private not-for-profit institutions and 10.5 percent for those who

[61] Department of Education, Direct Loan and Federal Family Education Loan Programs.

attended private not-for-profit institutions of less-than-two-year institutions. The costs of these student defaults, however, do not consistently reflect these default rates: the cost to the government by defaulting students who attended public two-year institutions was less than those students who attended public four-year institutions because the loans were smaller. Moreover, the pattern of defaults changes for those who attended two-year and less-than-two-year institutions. For both public and private for-profit institutions, the average default rates for the 2005, 2006 and 2007 cohorts were higher for those who attended two-year institutions than those from less-than-two-year institutions.

Table 19A. Federal Student Loan Default Rates, By Class of Institution and Type of Institution, Cohorts 2005, 2006 and 2007[62]

Institution	FY 2005	FY 2006	FY 2007	Average
Public	4.3%	4.7%	5.9%	5.0%
Four-Year	3.0%	3.4%	4.3%	3.6%
Two-Year	7.9%	8.4%	9.9%	8.7%
Less-than-Two-Year	5.2%	6.4%	7.5%	6.4%
Private Not-for-Profit	2.4%	2.5%	3.7%	2.9%
Four-Year	2.3%	2.4%	3.6%	2.8%
Two-Year	6.7%	6.1%	8.1%	7.0%
Less-than-Two-Year	9.0%	10.0%	12.6%	10.5%
Private for-Profit	8.2%	9.7%	11.0%	9.6%
Four-Year	7.2%	8.4%	9.8%	8.5%
Two-Year	9.3%	11.1%	12.5%	11.0%
Less-than-Two-Year	8.9%	10.9%	12.0%	10.6%
ALL	**4.6%**	**5.2%**	**6.7%**	**5.5%**

Table 19B. Government Cost of Federal Student Loan Defaults, Per-Enrolled Student, By Class of Institution and Type of Institution, 2008

	Public	Private Not-for-Profit	Private For-Profit
Four Year	$29	$43	$294
Two Year	$10	$98	$383
Less than Two Year	$14	$71	$272

These calculations use official "cohort default rates" published by the Department of Education to estimate the taxpayer costs of defaults. This official rate is the percentage of borrowers who submit payments on loans under the Federal Family Education Loan or Direct Loan Program loans during the fiscal year and default before the end of the following fiscal year. In addition to these official cohort default rates, the Department of Education issues each year a "budget lifetime default rate" and a "cumulative lifetime default rate." The budget lifetime default rate is an estimate or projection of the percentage of the dollars loaned through the Federal Family Education Loan and Direct Loan Programs in a particular fiscal year expected to default over the 20 year term of the loans. The cumulative lifetime default rate is the percentage of loans under the Federal Family Education Loan and Direct Loan Programs that enter repayment in a particular fiscal year and default during that fiscal year.

[62] Department of Education, Direct Loan and Federal Family Education Loan Programs.

Unlike the official "cohort default rates," the Department of Education does not issue budget lifetime and cumulative lifetime default rates for each of the three classes and three types of institutions of higher education. The official cohort default rate is an administrative tool covering a two-year indicator period. The budget lifetime default rate is used primarily for budgeting purposes, while the cumulative lifetime default rate is considered to be a performance aid focused on the risk of default over the life of a loan. These default rates can differ significantly. For example, the overall official cohort default rate in 2007 was 6.7 percent, compared to a budget lifetime default rate of 15.3 percent and a cumulative lifetime default rate of 8.0 percent. (Table 20, below) However, the Department of Education cautions that these rates cannot be compared directly, because they are derived from different pools of loans, borrowers, and institutions.[63] For the purpose of this analysis, therefore, we use the official cohort default rates to calculate taxpayer costs or support for each class and type of institution. Moreover, we have established that the conclusions about the general levels of public support for the three classes of institution, as presented here, are not sensitive to the differences in these default rates.

Table 20. Comparison of Various Student Loan Default Rates, Cohorts 2005-2007

Default Rates	FY 2005	FY 2006	FY 2007	Average
Official Cohort Default Rate	4.6%	5.2%	6.7%	5.5%
Budget Lifetime Default Rate	13.2%	14.6%	15.3%	14.4%
Cumulative Lifetime Default Rate	8.6%	7.6%	8.0%	8.1%

In addition to bearing the costs of defaults, the federal government also provides substantial interest rate subsidies for its student loans. For example, under the Stafford loan program, the federal government covers interest payments due while the borrower remains in school. Federal student loans are also available on an unsubsidized basis. However, detailed data on federally subsidized and nonsubsidized loans by class and type of institution are not available. For these calculations, therefore, we assume that all federal student loans are subsidized. We also use the current 6.8 percent fixed rate for unsubsidized loans to estimate the federal interest subsidies. For example, a federal loan of $1,826, the per-student average for four-year public institutions (Table 16 above), would generate an annual interest subsidy of $124 ($1,826 x 0.068 = $124).[64] (Table 21, below)

The three classes of institutions differ substantially in dimension or size: For example, the enrollments of all public institutions – four -year, two-year and less-than-two-year – total 14.1 million, compared to less than 3.7 million students in private not-for-profit institutions and less than 1.8 million students attending private for-profit institutions. Therefore, in calculating the federal, state and local support for the three types of institutions, we will use the per-student cost. The following table shows the cost per-student of federal interest subsidies on student loans, by class and type of institution.

[63] Information for Financial Aid Professionals.

[64] The total cost of subsidizing federal loans to students at four-year public institutions, therefore, can be calculated as the per-student subsidy cost multiplied by the number of enrolled students: For four-year public institutions, that would be $124 x 7,331,849 = $909.1 million.

Table 21. Annual Interest Rate Subsidy on Federal Loans, Per-Enrolled Student, By Class of Institution and Type of Institution, 2008

	Public	Private Not-for-Profit	Private For-Profit
Four-year	$124	$187	$347
Two-year	$42	$181	$323
Less-than-two-year	$72	$126	$259

As expected, the federal interest rate subsidies per-student for those attending private for-profit institutions are larger than the subsidies for those attending private not-for-profit institutions, which in turn are larger than the subsidies for students attending public institutions. These differences reflect differences in the overall funding of higher education at the three classes of institutions, including 1) much lower tuitions at public institutions; 2) less direct federal support for private for-profit institutions compared to private not-for-profit institutions; 3) less direct state and local support for private for-profit institutions compared to public institutions; and, 4) consequently, greater participation in federal loan programs and higher loan levels by students at private for-profit institutions compared to other institutions.

VII. The Distribution of Federal, State and Local Government Support for Higher Education

We can now examine fully the total annual costs to federal, state and local governments of their support, both direct and indirect, as well as the tax receipts they return to government, for institutions of higher education, according to the class and type of institution. Unsurprisingly, combined government support at all levels, per-enrolled student, is greatest for public institutions of all three types (four-year, two-year and less-than-two-year), with most of that support provided through direct grants, appropriations and contracts from state and local governments. The smallest government support per-student across all three types of institutions goes to private for-profit institutions. In contrast to public institutions, private institutions both not-for-profit and for-profit receive the majority of their support from federal programs. The data further show that the sources of support for students vary by both class and type of institution. For example, the total government support provided to students at four-year institutions is roughly comparable across the three classes of institutions; but the sources of this support for students at four-year public and private not-for-profit institutions are divided roughly equally between federal and state and local government, while nearly all of the support for students at four-year private for-profit institutions comes from the federal government. (Table 22, below) This fact may be the source of a common misconception that private for-profit institutions receive disproportionate government support. In fact, these institutions receive both less direct federal support and less total support from government at all levels per-student than public or private not-for-profit institutions, across all three types of institutions. (Tables 23-25, below)

Tax Liabilities

Public and private not-for-profit institutions are broadly exempt from federal and state taxes on their net incomes, with the exception of regular and consistent "unrelated business income" derived from operations not covered by the definition of the institution's tax exempt activities. Almost all of the revenues collected by most public and private not-for-profit institutions come from covered activities, and most of their unrelated business income is offset by allocated expenses. Therefore, public and private not-for-profit institutions pay little if any federal or state taxes on their receipts.

However, the net revenues of private for-profit institutions are subject to corporate tax at both federal and state levels, including their tuitions and fees, government appropriations, grants and contracts, and sales of and receipts from educational and non-educational services and activities, after all of operational expenses and purchases. The 2008 revenues of all four-year, two-year and less-than-two-year private for-profit institutions totaled more than $20 billion in 2008, and their expenditures totaled about $17.5 billion. (Table 22, below) These institutions, therefore, reported taxable income of nearly $2.5 billion in 2008. These earnings were subject to an average federal and state tax rate of about 40 percent, producing nearly $1 billion in government revenue in 2008. The tax liability per-enrolled student in private for-profit institutions averaged $549 in 2008 ($597 for four-year institutions, $485 for two-year institutions, and $425 for less-than-two-year institutions).

Table 22. Consolidated Income Statement of Private For-Profit Institutions, By Type of Institution, 2008 (millions)[65]

	Total	Four-Year Institutions	Two-Year Institutions	Less-than-Two-Year Institutions
Revenues				
Total	$20,007.2	$12,174.4	$4,757.7	$3,075.1
Tuition and fees	17,035.9	10,751.1	3,985.3	2,299.5
Appropriations, grants, contracts	1,392.4	674.8	391.2	326.4
Federal	1,301.6	644.1	350.6	307.0
State and local	90.8	30.7	40.6	19.4
Private grants, contracts	8.5	2.6	2.3	3.6
Investment income	76.6	50.8	15.2	10.7
Sales, services of education activities	523.7	246.4	96.3	181.0
Sales, services of auxiliary activities	450.6	269.8	88.2	92.7
Other revenues	519.5	178.9	179.3	161.3
Expenditures				
Total	$17,540.6	$10,424.5	$4,320.1	$2,795.9
Instruction	4,515.2	2,149.7	1,359.8	1,005.8
Research, public services	16.2	7.5	2.8	5.9
Academic, student, inst. Support	10,962.3	7,335.6	2,412.7	1,214.0
Auxiliary enterprises	489.4	312.8	119.1	57.5
Net grant aid to students	87.4	71.3	12.8	3.3
Other expenses	1,470.1	547.6	413.0	509.5
Taxable Income	**$2,466.6**	**$1,749.8**	**$437.6**	**$279.2**
Tax Liability (40 percent tax rate)	**$986.6**	**$699.9**	**$175.0**	**$111.7**
Enrollment	1,797,563	1,173,459	361,091	263,013
Tax Liability Per-Student (dollars)	$548.9	$596.5	$484.7	$424.6

[65] U.S. Department of Education, National Center for Education Statistics.

In calculating the total government support and support per-student for the three classes of institutions, we will have to net out the tax receipts paid by private for-profit institutions.

Four-Year Institutions

The data on federal, state and local support for the three classes of four-year institutions shows striking similarities and differences. The most important difference lies in the bottom line: Total government support, both direct and indirect, after taxes, for four-year public institutions comes to $15,540 per-student, or more than twice the total government support of the $7,065 per-student for private not-for-profit institutions, and more than six times the government support of $2,394 per-student, after taxes, for four-year private for-profit institutions. (Table 23, below) Two major factors are the different levels of government support provided by state and local governments and the tax exempt status of public and private not-for-profit institutions. Four-year private for-profit institutions, on average, paid $597 per-student in federal, state and local taxes while their public and private not-for-profit counterparts were exempt from taxes. After taking account of the different tax treatment, government direct support for private four-year for-profit institutions in 2008 was a negative $22 per-student in 2008 compared to $13,240 per student in four-year public institutions and $4,765 per-student in four-year private not-for-profit institutions. As we will see, even setting aside tax considerations, four-year private for-profit institutions received $575 per-student in direct government support, compared to the $13,240 per-student and the $4,765 per-student received by their public and private not-for-profit counterparts.

Looking only at federal dollars, the total federal support for four-year public and four-year private not-for-profit institutions were roughly comparable, calculated on a per-student basis: $5,398 per-student at the four-year private not-for-profit institutions and $5,192 per-student at the four-year public institutions. But the public institutions also receive major support from state and local governments, equal to $10,348 per-student compared to just $1,668 per-student at the private not-for-profits. Equally large differences are evident in total government support, direct and indirect, for four-year private for-profit institutions, which receive the equivalent of $2,755 per-student from the federal government – half the levels of public and private not-for-profit institutions – and just $236 per-student from state and local governments, or barely 2 percent of the state and local support for assistance provided per-student to public universities and only 20 percent of the state-and-local support for private not-for-profit institutions.

Most of the generous government support for four-year public and private not-for-profit institutions comes through direct means, in the form of appropriations, grants, and contracts. Such direct support comes to $13,240 per-student at four-year public institutions and $4,765 per-student at four-year private not-for-profit institutions, with again most of the difference coming from state and local government programs. The greater contrast comes with the four-year private for-profit institutions, which receive just $575 per-student in direct government support – 12 percent of the levels at four-year private not-for-profits and barely more than 4 percent of the levels at four-year public institutions.

A striking similarity across the three classes of institutions is clear in the data on indirect government support for the four-year institutions through grants and loans to students: Counting federal, state and local grants to students, government subsidies for student loans, and the costs of defaults on those loans, the average cost of this indirect government support per-enrolled student is $2,416 for four-year private for-profit institutions, $2,301 for four-year private not-for-profit institutions, and $2,300 for four-year public institutions. (Table 23, below) Once again, the composition of this support for students varies across the classes of institutions: Student attending four-year private for-profit institutions receive 91 percent of their government-provided support from federal programs ($2,206 per-student), while state and local governments provide just 9 percent ($210 per-student). State and local governments are much more generous to students attending four-year public or private not-for-profit institutions. Students at four-year private not-for-profit institutions receive 44 percent of their support from state and local programs ($1,017 per-student) and 56 percent from federal programs ($1,284 per-student), while those at four-year public institutions receive 48 percent of their support from state and local governments ($1,112 per-student) and 52 percent from federal programs ($1,188 per-student).

Table 23. Federal, State and Local Government Support, Post-Tax, Per-Enrolled Student, for Four-Year Institutions of Higher Education, By Class of Institution[66]

	Public	Private Not-for-Profit	Private For-Profit
Total Government Support	**$15,540**	**$7,065**	**$2,394**
Federal	5,192	5,398	2,755
State and Local	10,348	1,668	236
Tax Liability	0	0	-597
Direct Support Provided to Institutions			
Total	$13,240	$4,765	-$22
Federal	4,004	4,114	549
State and Local	9,235	651	26
Tax Liability	0	0	-597
Indirect Support Provided to Students			
Total	$2,300	$2,301	$2,416
Federal	1,188	1,284	2,206
Grants	1,035	1,059	1,565
Interest Subsidies	124	181	347
Cost of Defaults	29	43	294
State and Local	1,112	1,017	210

Two-Year Institutions

Government support for two-year institutions follows many of the patterns of support for four-year institutions. Total support from all levels of government, calculated per-enrolled student -- including direct government grants, appropriations and contracts to these institutions, less tax payments, as well as indirect support through grants and loans to students attending the institutions – is greatest for two-year public institutions at $6,919 per-student, followed by two-year private not-for-profit institutions at $5,244 per-student, and finally two-year private for-

[66] Figures are based on full-time, first-time degree/certificate-seeking undergraduates. National Center for Education Statistics and authors' estimates.

profit institutions at $3,628 (post-tax) per-student. (Table 24, below) Therefore, two-year private for-profit institutions receive about 30 percent less support, on a per-student basis, than private not-for-profit institutions, and 48 percent less support than public institutions per-student.

This disparity in government support is greatest with regard to direct support through government grants, appropriations and contracts for institutions, less tax payments to the government, and with regard to assistance from state and local governments. Two-year private for-profits received $599 per-student in direct support, net of their taxes ($1,083 gross direct support minus $485 tax liability). That level is 75 percent less than the direct support provided two-year private not-for-profit institution, at $2,359 per-student, and 89 percent less direct support than two-year public institutions receive at $5,233 per student. (Table 24, below) Beyond different tax treatment, the gap reflects low support from state and local governments: $113 per-student for two-year private for-profits, or 83 percent less than private not-for-profits receive at $678 per-student and 97 percent less than public institutions at $4,181 per-student.

Some of these stark differences are offset by indirect support, through government loans and grants to students attending two-year private for-profit institutions: This support is actually greater, per-student, than the support provided students attending two-year private, not-for-profit and public institutions. All levels of government, combined, spend about $3,030 per-student on grants, loan subsidies and default coverage for students attending two-year for-profit institutions, compared to $2,885 per-student for those attending two-year private not-for-profit institutions and $1,687 per-student for those attending two-year public institutions. (Table 24, below) The low level of student support for two-year public institutions reflects their lower tuitions and their large direct government support, especially from state and local governments.

Table 24. Federal, State and Local Government Support, Per-Enrolled Student, for Two-Year Institutions of Higher Education, By Class of Institution[67]

	Public	Private Not-for-Profit	Private For-Profit
Total Government Support	$6,919	$5,244	$3,628
Federal	2,289	3,610	3,690
State and Local	4,631	1,634	424
Tax Liability	0	0	-485
Direct Support Provided to Institutions			
Total	$5,233	$2,359	$599
Federal	1,052	1,681	971
State and Local	4,181	678	113
Tax Liability	0	0	- $485
Indirect Support Provided to Students			
Total	$1,687	$2,885	$3,030
Federal	1,237	1,929	2,719
Grants	1,186	1,650	2,012
Interest Subsidies	42	181	323
Cost of Defaults	10	98	383
State and Local	450	956	311

[67] Figures are based on full-time, first-time degree/certificate-seeking undergraduates. National Center for Education Statistics and authors' estimates.

Less-than-Two-Year Institutions

The general patterns of government support for the three classes of institutions seen in four-year and two-year institutions are also evident in less-than-two-year institutions. The combined government support, both direct and indirect, including offsetting tax payments, for less-than-two-year private for-profit institutions is $3,515 per-student ($3,940 before tax payments), or 55 percent of the level for less-than-two-year private not-for profit institutions at $7,858 per-student and 65 percent less than the level for less-than-two-year public institutions at $10,089 per-student. (Table 25, below) Again, the greatest disparities involve support from state and local governments: Less-than-two-year private for-profit institutions receive $172 per-student in such support, compared to $2,455 per-student for less-than-two-year private not-for-profit institutions and $7,587 per-student at less-than-two-year public institutions.

The smallest differences occur in direct federal grants, appropriations and contracts: Less-than-two-year private for-profit institutions receive the equivalent of $1,167 per-student in such direct federal support, only modestly less than the $1,339 in direct federal support received by less-than-two-year public institutions -- but barely one-third of the $3,123 per-student federal support received by private not-for-profit institutions. (Table 25, below) Greater differences are evident in direct support from state and local governments: Less-than-two year-private for-profit institutions receive the equivalent of just $74 per-student in such support, or less than 4 percent of the direct state and local support for private not-for-profit institutions at $1,857 per-student and barely 1 percent of the direct state and local support provided to public institutions. Another major difference is the tax liability of less-than-two-year private for-profit institutions, which paid taxes equivalent to $425 per-student, compared to no taxes paid by (tax-exempt) less-than-two-year public and private not-for-profit institutions.

Once again, some of these disparities are offset by the indirect support provided through government loans and grants to students attending less-than-two-year private for-profit institutions: This support is greater, per-student, than the support provided students attending comparable public institutions and only modestly less than the support provided students at private not-for-profit institutions. All levels of government, combined, spend $2,698 per-student on grants, loan subsidies and default coverage for students attending less-than-two-year for-profit institutions, compared to $2,878 per-student for those attending private not-for-profit institutions of the same type and $1,560 per-student for those attending public institutions. (Table 25, below) The low level of student support for less-than-two-year public institutions, again, reflects their lower tuitions and large direct government support, especially from state and local governments.

Table 25. Federal, State and Local Government Support, Per-Enrolled Student, for Less-than-Two-Year Institutions of Higher Education, By Class of Institution[68]

	Public	Private Not-for-Profit	Private For-Profit
Total Government Support	$10,089	$7,858	$3,515
Federal	2,502	5,403	3,768
State and Local	7,587	2,455	172
Tax Liability	0	0	-$ 425
Direct Support Provided to Institutions			
Total	$8,529	$4,980	$816
Federal	1,339	3,123	1,167
State and Local	7,190	1,857	74
Tax Liability	0	0	- $425
Indirect Support Provided to Students			
Total	$1,560	$2,878	$2,698
Federal	1,163	2,280	2,601
Grants	1,077	2,083	2,068
Interest Subsidies	72	126	259
Cost of Defaults	14	71	274
State and Local	397	598	98

Summary of Differences in Levels of Government Support and Assistance

These data should help inform recent public discussions about how public resources are allocated among the three classes of institutions of higher education, and the three types of institutions within each class. To make these allocations easier to interpret, we have reconfigured Tables 23, 24 and 25 to highlight the precise relationships between the support per-student that each class of institution received from federal and state and local governments. Table 26A-C, below, show the allocation of public resources among the three classes of four-year, two-year, and less-than-two-year institutions, with the government support per-student for private for-profit institutions set as a reference level of $1 and support per-student for their counterpart public and private not-for-profit institutions calculated based on their ratio to the per-student government support for private for-profit institutions. Therefore, support at twice the level, per-student, of private for-profit institutions is expressed as $2.00, and support at half that reference level is expressed as $0.50.

[68] Figures are based on full-time, first-time degree/certificate-seeking undergraduates. National Center for Education Statistics and authors' estimates.

Four-Year Institutions

Table 26A. Relative Government Support, Per-Student and Post-Taxes, for Four-Year Institutions and Their Students, By Class of Institution, with Support for Private For-Profit Institutions Set at $1.00

	Public	Private Not-for-Profit	Private For-Profit
Total Government Net Support	**$6.49**	**$2.95**	**$1.00**
Federal	$1.85	$1.95	$1.00
State and Local	$43.85	$7.07	$1.00
Tax Liability	0	0	40 percent tax rate
Direct Support Provided to Institutions			
Total , Pre-Tax	$23.02	$8.28	$1.00
Federal	$7.29	$7.15	$1.00
State and Local	$355.20	$25.04	$1.00
Net Support Ratio	$601.82	$216.60	($1.00)
Indirect Support Provided to Students			
Total	$0.95	$0.95	$1.00
Federal	$0.52	$0.58	$1.00
State and Local	$5.30	$4.42	$1.00

For every $1.00 provided by government in all direct and indirect support per-student to four-year private for-profit institutions and their students, less tax payments per-student, four-year public institutions and their students received $6.49 in government support and four-year private not-for-profit institutions and their students received $2.95. (Table 26A, above) The disparities, as usual, are greatest in the support provided directly to the institutions through government appropriations, grants and contracts, and the support provided by state and local governments. Four-year private for-profit institutions actually received less per-student in direct support, $575, than they paid in direct taxes per-student, $597. Here, therefore, we present a ratio of net support: Four-year private for-profit institutions pay government, on average, $22 more per-student than they receive in direct support from government, per-student. For every net dollar that these institutions pay government, therefore, government provides direct support of $602.92 per-student to four-year public institutions and $216.60 per-student to four-year private not-for-profit institutions. Most of the government assistance provided to four-year private for-profit institutions comes indirectly through grants and loans to their students. Overall, students at all three classes of institutions receive such grants and loans at roughly comparable levels: For every $1.00 in support per-student provided to those attending the private for-profit institutions, those attending the comparable public and private not-for-profit institutions receive $0.95 in support. Students attending four-year private for-profit institutions, however, receive more support through federal programs, while those attending public and private not-for-profit institutions receive greater support through state and local government programs.

Two-Year Institutions

Table 26B. Relative Government Support, Per-Student and Post-Taxes, for Two-Year Institutions and Their Students, By Class of Institution, with Support for Private For-Profit Institutions Set at $1.00

	Public	Private Not-for-Profit	Private For-Profit
Total Government Net Support	**$1.91**	**$1.45**	**$1.00**
Federal	$0.62	$0.98	$1.00
State and Local	$10.92	$3.85	$1.00
Tax Liability	0	0	40 percent tax rate
Direct Support Provided to Institutions			
Total, Post-Tax	$8.74	$3.94	$1.00
Federal	$1.08	$1.73	$1.00
State and Local	$37.00	$6.00	$1.00
Total, Pre-Tax	$4.83	$2.18	$1.00
Indirect Support Provided to Students			
Total	$0.56	$0.95	$1.00
Federal	$0.45	$0.71	$1.00
State and Local	$1.45	$3.07	$1.00

With regard to two-year institutions of higher education, the disparities in per-student support remain significant between private for-profit institutions, and public and private not-for-profit institutions. However, these differences are less dramatic than those evident in the comparisons of four-year institutions (Table 26A, above). For every $1.00 provided by government in total direct and indirect support per-student, less the institutions' tax payments per-student, to two-year private for-profit institutions and their students, two-year public institutions and their students received $1.91 in net government support and two-year private not-for-profit institutions and their students received $1.45. (Table 26B, above) Once again, the disparities are largest in the support provided by state and local governments, and the support provided directly to the institutions through government appropriations, grants and contracts. For every $1.00 per-student provided in direct government support to two-year private for-profit institutions, less their tax payments, two-year public institutions received $8.74 per-student and two-year private not-for-profit institutions received $3.94 per-student. (Disregarding tax payments, every $1 in direct government support provided to two-year private for-profit institutions was matched by $2.18 for two-year private not-for-profits and $4.83 for two-year public institutions.) Further, for every $1.00 in direct support per-student provided by state and local governments to two-year private for-profit institutions, two-year public institutions receive $37.00 per-student and two-year private not-for-profit institutions receive $6.00 per-student.

Again, most government support for private for-profit institutions comes indirectly through grants and loans to their students. Overall, students at two-year private for-profit institutions receive such grants and loans at generally comparable levels to those attending private not-for-profit institutions: For every $1.00 in support per-student provided to those attending two-year private for-profit institutions, those attending private not-for-profit institutions received $0.95 in support. Students attending two-year public institutions, however, receive grants and loans at significantly lower levels, on a per-student basis, as students attending private for-profit and private not-for-profit institutions. These disparities largely reflect the low tuitions of students at two-year public institutions, and the lower household incomes of those attending private for-profit institutions. The other pattern seen here is that students at two-year private for-profit institutions receive larger grants and loans per-student from federal sources than their public and private not-for-profit counterparts, and smaller grants and loans per-student from state and local sources than those public and private not-for-profit counterparts.

Less-than-Two-Year Institutions

Table 26C. Relative Government Support, Per-Student and Post-Taxes, for Less-than-Two-Year Institutions and Their Students, By Class of Institution, With Support for Private For-Profit Institutions Set at $1.00

	Public	Private Not-for-Profit	Private For-Profit
Total Government Net Support	**$2.87**	**$2.23**	**$1.00**
Federal	$0.66	$1.43	$1.00
State and Local	$43.99	$14.27	$1.00
Tax Liability	0	0	40 percent tax rate
Direct Support Provided to Institutions			
Total Post-Tax	$10.45	$6.10	$1.00
Federal	$1.15	$2.68	$1.00
State and Local	$97.16	$25.09	$1.00
Total Pre-Tax	$6.87	$4.01	$1.00
Indirect Support Provided to Students			
Total	$0.58	$1.07	$1.00
Federal	$0.45	$0.88	$1.00
State and Local	$4.05	$6.10	$1.00

With less-than-two-year institutions of higher education, the disparities in per-student government support provided to private for-profit institutions, compared to public and private not-for-profit institutions, are larger than those for two-year institutions and smaller than those for four-year institutions. For every $1.00 provided by all levels of government in total, direct and indirect support per-student (less tax payments) to less-than-two-year private for-profit institutions and their students, less-than-two-year public institutions and their students received $2.87 in government support per-student, and less-than-two-year private not-for-profit institutions and their students received $2.23 per-student. (Table 26C, above) Once again, the disparities are largest in support provided by state and local governments, and support provided directly to institutions through government appropriations, grants and contracts. For every $1.00 per-student in direct government support to less-than-two-year private for-profit institutions, net of taxes, public institutions received $10.45 per-student and private not-for-profit institutions received $6.10 per-student. Even setting aside tax payments by private for-profit institutions, every $1.00 per-student in direct government support received by those institutions was matched by $4.01 per-student for private not-for-profit institutions and $6.87 per student for public institutions. Further, for every $1.00 in direct support per-student from state and local governments to less-than-two-year private for-profit institutions, year public institutions received $97.16 per-student and private not-for-profit institutions received $25.09 per-student.

Once again, most of the government support provided to private for-profit institutions comes indirectly through government grants and loans to their students. Overall, students at less-than-two-year private for-profit received modestly smaller grants and loans per-student than those at private not-for-profit institutions. For every $1.00 in support per-student provided to those attending less-than-two-year private for-profit institutions, those attending less-than-two-year private not-for-profit institutions received $1.07 per-student. Students attending less-than-two-year public institutions, however, received significantly smaller grants and loans, on a per-student basis, than students attending two-year private for-profit or not-for-profit institutions. As noted in other cases, this disparity reflects much lower tuitions at less-than-two-year public institutions, compared to less-than-two-year private for-profit and not-for-profit institutions. The other recurring pattern emerging is that students at the less-than-two-year private for-profit institutions received considerably larger grants and loans per-student from federal sources than their public and private not-for-profit counterparts, and much smaller grants and loans per-student from state and local sources than those public and private not-for-profit counterparts.

Average Support Provided to Four-Year, Two-Year, and Less-than-Two-Year Institutions

Table 27. Average Government Support, Per-Student, for the Three Types of Institutions – Four-Year, Two-Year, and Less-than-Two-Year -- By Class of Institution, With Support for Private For-Profit Institutions Set at $1.00

	Public	**Private Not-for-Profit**	**Private For-Profit**
Total Net Support	$3.41	$2.11	$1.00
Federal	$0.98	$1.41	$1.00
State and Local	$27.12	$6.92	$1.00
Tax Liability	0	0	40 percent tax rate
Direct Support Provided to Institutions			
Total Net Support	$19.38	$8.69	$1.00
Federal	$2.38	$3.32	$1.00
State and Local	$96.74	$14.96	$1.00
(Implicit Tax Liability Per-Student)	*0*	*0*	*($549)*
Indirect Support Provided to Students			
Total	$0.68	$0.99	$1.00
Federal	$0.48	$0.73	$1.00
State and Local	$3.16	$4.15	$1.00

Finally, we calculate the average government support per-student across the three types of institutions – four-year, two-year, and less-than-two-years – for each class of institution, and once again compare them using support for private for-profit institutions as the base. This analysis shows that private for-profit institutions and their students receive, on average, more than half the government support per-student provided to private not-for-profit institutions and their students, and less than one-third the government assistance per student provided to public institutions and their students. For every $1.00 provided by government in direct and indirect support per-student to private for-profit institutions and their students, public institutions and their students received $3.41 per-student, and private not-for-profit institutions and their students received $2.11 per-student. (Table 27, above) These ratios take account of the tax liability borne by private for-profit institutions: an average of $549 per-enrolled student, based on $597 per-student in four-year private for profit institutions, $485 per-student enrolled in for two-year for-profit institutions, and $425 per-student in less-than-two-year for-profits.

As noted previously for all three types of institutions, the disparities are largest in the support provided by state and local governments, and in support institutions receive directly through government appropriations, grants and contracts. For every $1.00 per-student provided in direct government support to private for-profit institutions, public institutions receive $19.38 per-student and private not-for-profit institutions receive $8.69 per-student. Further, for every $1.00 in direct support per-student provided by state and local governments to private for-profit institutions, public institutions received $96.74 per-student and private not-for-profit institutions received $14.96 per-student.

Once again, most of the government assistance provided to private for-profit institutions comes indirectly through grants and loans to their students. Overall, the students at private for-profit receive about the same grants and loans, per-student, as those at private not-for-profit institutions. For every $1.00 per student in government grants and loans provided to those attending private for-profit institutions, those attending private not-for-profit institutions received $0.99 per-student. As noted previously in our analyses of support by each type of institution, students attending public institutions receive significantly less in government grants and loans, on a per-student basis, as students attending private for-profit or not-for-profit institutions, at $0.68 per-student. Again, this disparity mainly reflects the much lower tuitions at public institutions compared to private for-profit and not-for-profit institutions, as well as the lower average incomes of students attending private for-profits. The other recurring pattern seen in the summary data is that students at private for-profit institutions receive larger grants and loans per-student from federal sources than their public and private not-for-profit counterparts, and much smaller grants and loans per-student from state and local sources than those public and private not-for-profit counterparts.

VIII. The Cost of Expanding Higher Education and Producing Five Million Additional Certificates and Associate Degrees

President Obama has urged Congress and the higher education community to expand enrollments at their institutions sufficiently to produce an additional 5 million certificates and associate degrees. Here, we analyze the cost of meeting this goal for federal, state and local governments, using two scenarios. First, we calculate the costs if the additional enrollees are distributed across the three classes of two-year and less-than-two-year institutions, based on their current relative enrollments. Since private not-for-profit institutions award only a very modest share of current certificates and associate degrees, this first scenario mainly involves public institutions and private for-profit institutions. Second, we calculate the costs if the policy were to be carried out exclusively by public two-year and less-than-two-year institutions. As we will see, the first scenario would cost government about $33 billion less than the second scenario, chiefly because government support plays a much larger role in the operations of public institutions than in private for-profit institutions.

For both scenarios, we estimate the cost of federal interest subsidies for the additional students while they remain in school and throughout their payback periods. This part of the analysis takes account of the terms of Stafford loans, in which the federal government covers interest payments while the borrowers attend school as well as part of the interest payments during the payback periods. We use the current 6.8 percent fixed interest rate for unsubsidized student loans to set this interest subsidy while the borrowers remain in school. These federal loans also carry a 4.5 percent interest rate during payback periods, and therefore we estimate the federal interest subsidy during those periods at 2.3 percent (6.8 percent – 4.5 percent = 2.3 percent). We further assume that these additional student borrowers receive the same loans in both years and pay back these loans over 10 years.[69] We also assume current loan default rates for each class of institution, and we estimate the cost of those defaults based on the average loan amount and the total additional enrollments required to meet the President's goal.[70] We also take account of the tax liability of private for-profit institutions. Finally, we assume that direct federal, state and local appropriations and grants to institutions would have to expand proportionate to the increase in enrollments to support the expanded operations required to accommodate the additional students.

Scenario One

In 2008, more than 7.4 million students were enrolled in two-year and less-than-two-year public, private not-for-profit and private for-profit institutions. Using average graduation rates within twice the original time (four years for two-year institutions and two years for less-than-two-year institutions) for the cohorts of students entering in 2005, 2006 and 2007, we estimate that the 2008 entering cohort will produce 2.4 million graduates with certificates or associate degrees from two-year and less-than-two-year institutions by 2012. (Table 28, below) Notably, two-year private for-profit institutions have much higher graduation rates than two-year public institutions and somewhat higher graduation rates than two-year private not-for-profit institutions. However, less-than-two-year public institutions and less-than-two-year private not-for-profit institutions have somewhat higher graduation rates than less-than-two-year private for-profit institutions.

[69] Total federal interest subsidies of all enrollments are calculated as: Interest Subsidies = Interest payments of two loans during school years + Interest subsidies of two loans during the 10 years payback period. Interest payments during school years of the first year loan = First year's loan x unsubsidized interest rate x 2 years; Interest payments during school years of the second year loan = Second year's loan x unsubsidized interest rate. Interest subsides of two loans during the years payback period = First year and second year's loans x Interest rate differential of unsubsidized and subsidized loans x 10 years. Mathematically, Federal Interest Subsidies = {[(Federal loan 1st year x 6.8% x 2 years) + (Federal loan 2nd year x 6.8%)] x Total Enrollments}+ {[(Federal loan 1st year + Federal loan 2nd year) x 2.3% x 10 years] x Total Enrollments}

[70] Mathematically, Federal Defaulted Financial Loan Burden = Defaulted Rate x Federal Loan 1st and 2nd year x Total Enrollments

Table 28. Number of Current Enrollments and Projected Graduates for Two-Year And Less-than-Two-Year Institutions, by Class of Institution

	Current Enrollment	Projected Number of Graduates by 2012	Graduation Rate
Total	**7,442,500**	**2,411,500**	**32.4%**
Two-Year Institutions			
Public	6,693,200	1,900,900	28.4%
Private Not-for-Profit	46,400	26,900	58.1%
Private For-Profit	361,000	236,200	65.4%
Less-than-Two-Year Institutions			
Public	67,100	53,700	80.1%
Private Not-for-Profit	11,800	9,500	80.0%
Private For-Profit	263,000	184,400	70.1%

Using current enrollment ratio and graduation rates for the three classes of institutions, we can estimate the additional enrollments in two-year and less-than-two-year public, private not-for-profit and private for-profit institutions required to produce five million additional certificates and associate degrees. We calculate that the policy would entail additional enrollments of 15.4 million students. Based on current distribution of enrollments in two-year and less-than-two-year institutions, we estimate that about 14 million of the additional students would attend public institutions, nearly 1.3 million of the additional students would attend private for-profit institutions, and the remaining 121,000 additional students would attend private not-for-profit institutions. (Table 29, below)

Table 29. Enrollments Required to Produce Five Million Additional Certificates and Associate Degrees with the Current Distribution of Students, By Class of Institution

	Additional Enrollment	Projected Graduates	Graduation Rate
Total	**15,431,300**	**5,000,000**	**32.4%**
Two-Year Institutions			
Public	13,877,600	3,941,200	28.4%
Private Not-for-Profit	96,111	55,800	58.1%
Private For-Profit	748,700	489,600	65.4%
Less-than-Two-Year Institutions			
Public	139,100	111,400	80.1%
Private Not-for-Profit	24,500	19,600	80.0%
Private For-Profit	545,300	382,300	70.1%

Government Funding – Scenario One

The costs for the federal, state and local governments to provide loans under this new policy for the 15.4 million additional student enrolling in two-year and less-than-two-year institutions, in order to produce 5 million additional certificates and associate degrees, would total an estimated $213.2 billion (Table 30A, below). This estimate assumes two years of loans per-enrolled student, two years of the federal government covering the interest of federal Stafford loans, ten years of federal subsidy for the additional Stafford loans during their payback period, the proportional costs of loan defaults for each class of institution, and taxes collected from private for-profit institutions. The estimate also assumes an expansion in direct government support for the institutions to help finance their expanded operations, in proportion to the increase in their enrollments.

All told, achieving the President's goal would entail estimated federal costs of $82.5 billion, with nearly $69 billion for public institutions and their students, about $1 billion for private not-for-profit institutions and their students, and nearly $13 billion for private for-profit institutions and their students. However, the government also should collect an additional $1.2 billion in tax revenues from private for-profit institutions. (Table 30A, below) Direct federal appropriations, grants and contracts to institutions would account for nearly $33 billion of the total, with more than $29 billion of that going to public institutions. Nearly $50 billion would go to students in federal loan subsidies, grants and payments for defaulted loans. Again, students attending public institutions would claim the major share, more than $39 billion, compared to $600 million for students at private not-for-profit institutions and nearly $10 billion for students at private for-profit institutions. State and local governments would assume even larger costs, totaling $131.9 billion; and virtually all of these costs -- $130.6 billion – would go to public institutions in direct appropriations, grants and contracts, and assistance to students.

Table 30A. Government Costs to Support an Additional Five Million Associate Degrees and Certificates of Higher Education by Two-Year and Less-than-Two Year Institutions, By Class of Institution ($ billions)

	Total	Two-Year Institutions			Less-than-Two-Year Institutions		
		Public	Private Not-for-Profit	Private For-Profit	Public	Private Not-for-Profit	Private For-Profit
Total	$213.2	$196.5	$1.1	$7.3	$2.9	$0.4	$4.9
Federal	$82.5	$68.0	$0.8	$7.4	$0.8	$0.3	$5.2
State-Local	$131.9	128.5	0.3	0.6	2.1	0.1	0.2
Tax Liability	- $1.2	0	0	- 0.7	0	0	-0.5
Direct Assistance to Institutions							
Total	$150.1	$145.2	$0.5	$0.9	$2.4	$0.2	$0.9
Federal	32.8	29.2	0.3	1.5	0.4	0.2	1.3
State-Local	118.5	116.0	0.1	0.2	2.0	0.1	0.1
Tax Liability	- $1.2	0	0	- $0.7	0	0	- $0.5
Assistance to Students							
Total	$63.1	$51.3	$0.7	$6.4	$0.5	$0.2	$4.0
Federal	49.7	38.8	0.5	5.9	0.4	0.1	3.9
Grants	38.9	32.9	0.3	3.0	0.3	0.1	2.3
Interest	9.7	5.6	0.2	2.4	0.1	0.0	1.4
Defaults	1.2	0.3	0.0	0.6	0.0	0.0	0.3
State-Local	13.4	12.5	0.2	0.5	0.1	0.1	0.1

The comparative costs of the policy, by class of institution, are clear when we calculate costs on a per-enrollee and per-graduate basis. On average, the policy would cost federal, state and local governments $13,816 per-student enrolled under the policy and $42,640 per-graduate. (Table 30B, below) However, these vary significantly across the three classes of institutions. Government costs are substantially higher at public institutions than for either private not-for-profit or private for-profit institutions. Moreover, the governments' costs are lowest per-student with respect to those enrolled and those who ultimately graduate at private for-profit institutions.

For those enrolled in two-year institutions to earn the associate degrees under the policy, federal, state and local government costs per-enrollee at private for-profit institutions come to $9,766, 32 percent less than the governments' cost per-enrollee at public institutions ($14,161) and 18 percent less than those costs per-enrollee at private not-for-profit institutions ($11,892). Large disparities are also evident in the federal, state and local government costs per-graduate under the policy: Those costs at two-year private for-profit institutions are $14,932 per-graduate, 28 percent less than the $20,469 cost per-graduate at two-year private not-for-profit institutions and 70 percent less than the costs per-graduate of $49,864 at a two-year public institution.

These differences are even greater for those who would be enrolled at less-than-two-year institutions to earn certificates. The federal, state and local governments' costs per-enrollee at a less-than-two-year private for-profit institution would come to $9,037, 46 percent less than the governments' costs per-enrollee at a private not-for-profit institution ($16,694) and 56 percent less than those costs per-enrollee at a less-than-two-year public institution ($20,738). Finally, the governments' costs under this policy per-graduate at a less-than-two-year private for-profit institution would come to $12,892, or 38 percent less than the governments' costs per-graduate of $20,867 at a less-than-two-year private not-for-profit institution and 50 percent less than those government costs of $25,891 per-graduate at a less-than-two-year public institution.

Table 30B. Combined Federal, State and Local Government Costs to Support an Additional Five Million Associate Degrees and Certificates of Higher Education, Per-Enrollee and Per-Graduate, By Class of Institution

	Total	Two-Year Institutions			Less-than-Two-Year Institutions		
		Public	**Private Not-for-Profit**	**Private For-Profit**	**Public**	**Private Not-for-Profit**	**Private For-Profit**
Total Government Costs (with Offsetting Tax Payments)							
Per-Enrollee	$13,816	$14,161	$11,892	$9,766	$20,738	$16,694	$9,037
Per-Grad	$42,640	$49,864	$20,469	$14,932	$25,891	$20,867	$12,892
Federal Government Costs							
Per-Enrollee	$5,346	$4,900	$8,624	$9,888	$5,565	$11,784	$9,543
Per-Grad	$16,500	$17,254	$14,843	$15,119	$6,947	$14,730	$13,613
State and Local Government Costs							
Per-Enrollee	$8,547	$9,261	$3,269	$847	$15,174	$4,910	$343
Per-Grad	$26,378	$32,610	$5,626	$1,295	$18,944	$6,138	$490
Offsetting Tax Payments							
Per-Enrollee	$77	0	0	$969	0	0	$849
Per-Grad	$238	0	0	$1,482	0	0	$1,211

As seen in other contexts, however, most of these disparities reflect very large differences in support from state and local governments. At the federal level, private for-profit institutions receive relatively little direct funding through appropriations, grants and contracts; while their students receive large support from federal loan and grant programs, support which typically exceeds that received by most students at public institutions, where tuitions are much lower.

Government Funding - Scenario Two

Under the second scenario, the policy is directed exclusively at two-year and less-than-two-year public institutions, which would receive funding to help expand their admissions and operations sufficiently to produce five million additional associate degrees and certificates. The costs to government of this approach are greater than those under the first scenario, for several reasons. First, the graduation rate from two-year public institution is 28.4 percent, compared to 58.1 percent in two-year private not-for-profit institutions and 65.4 percent in two-year private for-profit institutions. Therefore, this approach would require more admissions than the first scenario. Using the three-year average graduation rates for public two-year and less-than-two-year institutions, we estimate that a policy to produce five million additional associate degrees and certificates through public institutions would entail nearly 17.3 million additional enrollments, 17.1 million in two-year public institutions and 171,600 in less-than-two-year public institutions. (Table 31, below)

Table 31. Additional Enrollments Required to Produce Five Million More Associate Degrees and Certificates in Two-Year and Less-than-Two-Year Public Institutions

	Total	Two-Year Institutions	Less-than-Two-Year Institutions
New Enrollees	17,293,000	17,122,000	171,600
New Graduates	5,000,000	4,863,000	137 ,000
Graduation rate	28.9%	28.4%	80.1%

Based on current government support for two-year and less-than-two-year public institutions, the combined federal, state and local costs to support the 17.3 million enrollments in two-year and less-than-two-year public institutions, necessary to produce an additional five million associate degrees and certificates, would total $246 billion, or $32.8 billion more than the $213.2 billion cost under the first scenario. (Table 32A, below) Under this scenario, the federal government would provide $36.5 billion in direct appropriations, grants and contracts to the schools, $41 billion in student grants, $7.1 billion in student loan interest subsidies and $300 million for loan defaults, for a total of just under $85 billion. State and local governments would provide considerably more: $145.6 billion in direct appropriations, grants and contracts to the schools and $15.5 billion in student grants, for a total of $161 billion.

Table 32A. Federal, State and Local Government Costs to Support an Additional Five Million Associate Degrees and Certificates of Higher Education by Two-Year and Less-than-Two Year Public Institutions ($ billions)

	Total	Two-Year Institutions	Less-than-Two-Year Institutions
Total	$246.0	$242.5	$3.6
Federal	84.9	83.9	1.0
State-Local	161.2	158.6	2.6
Direct Assistance to Institutions			
Total	$182.1	$179.2	$2.9
Federal	36.5	36.0	0.5
State-Local	145.6	143.2	2.5
Assistance to Students			
Total	$63.9	$63.3	$0.6
Federal	48.4	47.9	0.5
Grants	41.0	40.6	0.4
Interest	7.1	7.0	0.1
Defaults	0.3	0.3	0.0
State-Local	15.5	15.4	0.1

The costs of the policy, per-enrollee and per-graduate, can be usefully compared to the per-enrollee and per-graduate costs under the first scenario, based on the participation of all three classes of institution, and to the costs per-enrollee and per-graduate at private for-profit institutions. On average, the policy would cost federal, state and local governments about $14,161 per-student enrolled using only public two-year institutions (scenario two), or only 1.7 percent greater than the $13,923 costs per-student enrolled using all three types of institutions (scenario one). However, the costs to federal, state and local government, per-graduate, are $49,864 using only public two-year institutions, or 9.1 percent greater than the costs per-graduate of $45,686 using all three types of institutions. Moreover, the average cost of the policy for federal, state and local governments, per-enrollee, using only public institutions, of $14,161, is 45 percent greater than $9,766 government cost per-enrollee for private for-profit institutions. In addition, the average government costs per-graduate using only public institutions of $49,864 is more than three times (234 percent) greater than the $14,932 government cost per-graduate for two-year private for-profit institutions. (Table 32B, below)

Table 32B. Government Costs, Per-Enrollee and Per-Graduate, to Support Five Million Associate Degrees and Certificates All from Public Institutions (Scenario One), Compared to All Three Classes of Institution (Scenario Two) and Private For-Profit Institutions

	Two-Year Institutions			Less-than-Two-Year Institutions		
	Scenario One	Scenario Two	Private For-Profit	Scenario One	Scenario Two	Private For-Profit
Total Government Costs						
Per-Enrollee	$13,923	$14,161	$9,766	$11,597	$20,738	$9,037
Per-Grad	$45,686	$49,864	$14,932	$16,018	$25,891	$12,892
Federal Government Costs						
Per-Enrollee	$5,178	$4,900	$9,888	$8,840	$5,565	$9,543
Per-Grad	$16,991	$17,254	$15,119	$12,209	$6,947	$13,613
State and Local Government Costs						
Per-Enrollee	$8,794	$9,261	$847	$3,411	$15,174	$843
Per-Grad	$28,856	$32,610	$1,295	$4,711	$18,944	$490
Tax Liability						
Per-Enrollee	($49)	--	($969)	($653)	--	($849)
Per -Grad	($162)	--	($1,482)	($902)	--	($1,211)

For those enrolled in two-year institutions, which cover the additional associate degrees under the policy, federal, state and local government costs per-enrollee using only public institutions would come to $14,163. (Table 31-B, above) This is 10.4 percent greater than the total government cost of the policy, per-enrollee, using all three classes of institutions ($12,097), and 33 percent more than the government cost for the policy per-enrollee at private for-profit institutions. As expected, the federal costs of the policy, per-enrollee, at two-year institutions, are 57 percent greater using all three classes of institutions ($7,703) than using only public institutions ($4,902), and those federal costs are even greater for the share, per-enrollee, at private for-profit institutions ($9884). However, because private for-profit two-year institutions have much higher graduation rates than either two-year public or two-year private not-for-profit institutions, the federal costs of the policy per-graduate are less using private for-profit institutions ($15,114) than using all three classes of institution ($15,568), and substantially less than using only public institutions ($17,254). Much greater disparities are evident in the costs of the policy to state and local governments. These state and local costs, per-enrollee, are 111 percent greater using only public institutions ($9,263) than using all three classes of institution ($4,394), and more than 11 times greater than the state and local government costs of the policy, per enrollee, at private-for profit institutions ($801).

These differences in public costs are even greater for the part of the policy that would be carried out at less-than-two-year institutions, which would cover most of the additional students studying for certificates. The federal, state and local governments' costs of the policy per-enrollee at less-than-two-year institutions would come to $20,738 using only public institutions, 79 percent greater than the comparable government costs using all three classes of less-than-two-year institutions ($11,597) and 130 percent greater than comparable government costs per-enrollee at less-than-two-year private for-profit institutions ($9,037). (Table 32B) Similar differences hold in the policy's total government costs per-graduate: Using only less-than-two-year public institutions, those costs are $25,891 per-graduate, 62 percent greater than the comparable costs using all three classes of less-than-two-year institutions ($16,018) and 100 percent greater than the government costs per-graduate at less-than-two-year private for-profit institutions ($12,892). As seen in all previous comparisons, the federal costs of the policy, per-enrollee and per-graduate, are greater at less-than-two-year private for-profit institutions than using all three classes of institutions or just public institutions, reflecting the costs of federal grants and loans to students. However, those differences are more than offset by the much greater state and local government costs of the policy, per-enrollee and per-graduate, claimed by less-than-two-year public institutions, compared to the average for all three classes of less-than-two-year institutions and private for-profit institutions.

IX. Conclusion

For more than the last decade, profit for-profit institutions have been the fastest growing segment of higher education, by far, with enrollments expanding from 240,000 to 1.8 million since 1995. This growth reflects a number of factors important in understanding its significance. New federal regulation of for-profit institutions in the early 1990s, for example, led to tighter admission procedures, improved curricula, and ultimately substantial quality improvements and mainstream accreditations. This progress coincided with increasing demand for higher education generally based on a record of delivering sustained higher incomes, particularly for those who completed their studies and earned degrees or certificates. Moreover, these economic returns are largest for students from lower-income families, who comprise a larger share of the student bodies of private for-profit institutions than of their public or private not-for-profit counterparts. In addition, these private for-profit institutions are generally operated as business: They approach their students as customers, tailoring their educational offerings to their demands by focusing on training for positions in fast-growing areas such as health care, computer science and business, and on adult learners seeking to upgrade their occupations. They also have been early adopters of online learning approaches to these occupation-focused curricula, making many of highly efficient and often less costly than more traditional institutions of higher education. The rapid expansion of private for-profit institutions, therefore, appears to be based largely on their comparative success in reaching underserved parts of a growing market for higher education and capacity for innovation.

Contrary to some claims, this rapid expansion has not been based on, or led to, any disproportionate support or assistance from government. A comprehensive analysis of the data finds that on a per-student basis, private for-profit institutions and their students receive only a modest fraction of the support that all levels of government provide to public and private not-for-profit institutions. Moreover, private for-profit institutions receive very little direct support in the form of federal, state or local appropriations, grants and contracts. For every $1 in such direct support for private for-institutions, per student, public institutions receive $19.68 per-student and private not-for-profit institutions receive $8.69 per-student. Furthermore, private for-profit institutions pay taxes on the net proceeds from all of their operations, while virtually all of the activities of public and private not-for-profit institutions are tax-exempt or effectively tax-free. We found that the annual tax payments of private for-profit institutions to the three levels of government, in all likelihood, actually exceed the direct support they receive from the three levels of government.

This very limited access to direct government support forces these institutions to depend on tuition payments to a much greater degree than their public or private not-for-profit counterparts. Their reliance on tuitions, along with the lower incomes of the students who attend these institutions, results in a significant reliance on government educational grants and loans by those students. Even so, the students attending private for-profit institutions receive, on average, receive significantly *smaller* educational grants from government than recipients at public or private not-for-profit institutions. As a result, students at private for-profit institutions receive, on average, larger government-subsidized higher-education loans, which in turn lead to greater taxpayer costs, per-recipient, than government loans to those attending public and private not-for-profit institutions. Yet, these costs ultimately reflect the comparative disadvantage that government implicitly imposes on both private for-profit institutions and their student in securing direct grants at anything approaching the levels of public or private not-for-profit institutions and their students. In any case, the additional costs of those loans for taxpayers are more than offset by the taxes paid by the private for-profit institutions which those students attend.

Finally, we find that the Obama Administration's proposal to expand substantially the numbers of Americans with associate degrees or certificates of post-secondary training could be carried out at the least cost to taxpayers if the program includes the full participation of private for-profit institutions. The attendant savings reflect both the relative general efficiency of private for-profit institutions and particularly the high graduation rates of the two-year institutions that grant associate degrees.

On balance, private for-profit institutions provide post-secondary training and skills to large numbers of Americans from groups traditionally underserved by many public and private not-for profit institutions of higher education. These institutions provide these services despite the fact that they and their students receive substantially less support from American government and taxpayers than public and private not-for-profit institutions and their students. In its efforts to promote broad access to higher education, Congress should consider measures to address these disparities and ensure that private for-profit institutions and their students have equal access to direct government grants intended to expand educational opportunities. At a minimum, Congress and the Administration should reject any calls to further regulate private for-profit institutions in ways that ultimately would force them to reduce the broad opportunities for higher education which they currently provide.

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