



Commentaries

Non-profit Colleges Can Be Very Profitable

They spend their excess money in ways that don't improve education.

By [George Leef](#)

Red highlights added.

August 17, 2011

Is the University of North Carolina profitable? How about Harvard?

Silly questions, right? UNC is a state-run school. It *can't* make either profits or losses. Harvard is a *non-profit* institution, so ditto.

But what if we defined profit as “charging consumers more for a service than it costs to provide that service”? Both government and officially non-profit institutions could do that, making college education more expensive than it needs to be.

A scholar who has been thinking a great deal about efficiently providing higher education is Professor Vance Fried of Oklahoma State. While other people have been talking about the possibility of low-cost but high-quality colleges, he crunched the numbers and concluded that it is possible to have them at a cost of under \$8,000 per year. With many schools charging three, four, five times that amount, that's a revolutionary idea.

According to Fried's recent paper, [“Federal Higher Education Policy and the Profitable Nonprofits”](#) many colleges and universities are charging their undergraduates much more than their education costs. Schools like UNC and Harvard, he writes, “do not show profits on their books, but instead take their profits in the form of spending on some combination of research, graduate education, low-demand majors, low faculty teaching loads, excess compensation, and featherbedding.”

Fried, incidentally, is not the only person who has come to that conclusion. In a paper published in March, [“Who Subsidizes Whom?”](#) Andrew Gillen, Matthew Denhart, and Jonathan Robe of the Center for College Affordability and Productivity argued the same thesis. They wrote, “Not only are most students not being subsidized by their college, but most colleges are able to divert money towards non-educational activities, all the while claiming that this spending is for the benefit of students.”

The fact that nonprofit organizations are able to spend a lot of money on various perquisites and benefits for those who run them is nothing new. We have known for a long time that labor unions and charitable groups often lavish their dues and donations on high executive salaries, expense accounts, travel to conferences and so on.

Until recently, not much scrutiny has been given to this phenomenon in higher education, although high-profile cases have gotten brief attention in the past—such as [Donald Kennedy's](#) use of federal grants to cover the costs of “living big” while he served as president of Stanford.

Now that people are examining the relative costs and benefits of college education more closely than ever, the argument that schools are charging substantially more than undergraduate education really needs to cost is gaining traction.

In his book *Better/Cheaper College*, Fried carefully calculated that a quality liberal arts education at a residential college only needs to cost around \$8,000 per year. The revenues that most schools receive, however, is considerably in excess of that amount. Looking at the figures, **Fried concludes in his paper, “Based on tuition revenues alone, the average private undergraduate school makes about \$5,500 per student. When donations and endowment income are added, profits jump to \$12,800 per student.” That is twice the profit margin earned by for-profit University of Phoenix, he states.**

Public universities are also very profitable. While tuition is generally lower (except for out-of-state students), they receive large amounts of state operating support. Fried calculates the average per student profit at \$11,000. The “profits” are spent on his list of educationally unnecessary items like low teaching loads and excessive compensation.

What is “unnecessary” is a debatable question, however. Fried regards faculty research as an unnecessary cost. That doesn't mean he is opposed to professors writing articles and books. Scholars who have something they think is important to say will continue to do so. **Fried's point is that professors should normally have a “high” teaching load of twelve hours (that is, four three-credit courses per semester).** If they want to do research, fine, but teaching should be their foremost obligation.

(Twelve hours, incidentally, used to be the norm for professors at research universities, and 15 hours the norm for professors at other colleges.)

Fried's ideas were discussed at a recent [forum](#) sponsored by Cato Institute. **His contention that faculty research is part of the “profit” colleges earn at the expense of students and taxpayers was criticized by Peter McPherson, former president of Michigan State.** McPherson questioned whether students would want to attend a school where the professors just taught and published no research.

Furthermore, McPherson argued, research improves teaching by keeping a professor current with developments in his or her field.

I'm not sold on the arguments that research is integral to college education. While some students may want a school where the faculty is busy with research, most, I suspect, don't think it matters. Even at top research universities, few students know whether their professors are publishing scholarly articles much less what they're about.

Nor does research, which usually involves some narrow and esoteric academic niche, usually do anything to help the professor better explain undergraduate course material, a point made in [this discussion](#) among four professors on the merits of research.

Besides, there are schools that still require professors to teach that “high” load of twelve hours or more. I don't think there is any reason to believe that students at such schools are being short-

changed. In fact, schools with professors who are committed to teaching can be educationally excellent and less costly to boot.

In their book [*Higher Education?*](#) Andrew Hacker and Claudia Dreifus identified a number of schools like that, such as Western Oregon University, where “There are no star professors, not much research, and the administration is bare bones. All these limits inadvertently make Western Oregon a delightful place.”

So there *are* colleges that don’t rake in “profits” but just give their students a good, affordable education. Why aren’t there more of them?

Fried’s answer is that the copious amount of government money that flows into most colleges and universities makes it irresistibly tempting for them to spend the profits on frills. He advocates shutting off the flow: “Less federal money would force higher college productivity and, of course, lower government spending.”

I’m in favor of less federal money, but education spending is such a sacred cow in Washington that we shouldn’t expect any reduction, much less a shut-off. That being the case, is there some other scenario?

University of Arkansas education professor Jay Greene recently [*wrote*](#) that big philanthropists should put their money into new institutions rather than spending it in a futile quest to improve existing ones. The many administrators and professors who now enjoy the “profits” like things just the way they are. Making the changes to bring about higher productivity and lower costs will be like pulling teeth. People with plenty of money and a concern about education should fund new colleges instead.

Fried has provided the template for new, efficient, truly nonprofit colleges in *Better/Cheaper College*. Someone should send Bill Gates a copy.

Finally, competition might squeeze out or at least reduce the excess profits that many colleges enjoy, just as competition does that in other service markets. Go into a dry cleaning store and you just pay for the dry cleaning you want done. You don’t pay for workers who do little work with clothing but mostly do research on dry cleaning theory. If one dry cleaner tries to charge substantially more than its competitors, money-conscious consumers will go elsewhere.

If there’s an incentive to save a few dollars on your dry cleaning, there is certainly an incentive to save many thousands of dollars on college costs. Until now, many students and parents have accepted the idea that more expensive colleges are necessarily better, but in the forthcoming era of tightened belts, that’s going to change. The shift toward community colleges is evidence that consumers are starting to weigh cost and value more carefully.

The profitable nonprofits are probably going to see their margins shrink.

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