Higher Education Accreditation: Market Regulation or Government Regulation Revisited*

Joshua C. Hall

Working Paper No. 15-42

This paper can be found at the College of Business and Economics Working Paper Series homepage:

http://be.wvu.edu/phd_economics/working-papers.htm
Higher-Education Accreditation: Market Regulation or Government Regulation Revisited

Joshua C. Hall *
West Virginia University
College of Business and Economics
PO Box 6025
Morgantown WV 26506-6025
joshua.hall@mail.wvu.edu
304-293-7870
October 26, 2015

Abstract
Higher education is under fire in the United States. Pressure, both financial and political, is being placed on colleges and universities to reform. One barrier to reform that has been put forth is accreditation. While calls for reform have identified what appear to be problems with accreditation, it is important to not engage in the nirvana fallacy and assume that what we can imagine will be better will be better. In that light, I look at the history of the accreditation process with a focus on the role the federal government has played and how that has influenced other players in the higher education market. After surveying the history, I conclude that accreditation as currently practiced is not self-regulation, but rather government regulation.

JEL Codes: I23; I28
Key Words: accreditation, quality assurance, cartel, market process

*I appreciate the help of Mary Watson, whose work on this topic got me started on this topic. In particular, I would like to thank her for sharing her paper "Misplaced Incentives: The Baptists and Bootleggers Story of Accreditation in Higher Education" with me. I would also like to thank the participants at George Mason University’s Law and Economics Center Higher Education Roundtable in Arlington, VA June 24-26.
1 Introduction

There is a growing dissatisfaction with higher education in the United States. A recent national poll from the Robert Morris University Polling Institute found that fewer than fifty percent of parents gave institutions of higher education an overall positive rating (Robert Morris Polling Institute, 2015). To put this decline in perspective, the very same poll found that a steep decline in the perceived value of a bachelor’s degree. Just a decade ago, 68 percent placed a positive value on a bachelor’s degree. Today that number is under 45 percent (Robert Morris Polling Institute, 2015).

Criticism of higher education is, of course, not new. For proof that there is nothing new under the sun, one only needs to read old issues of the *The Journal of Higher Education*. A particularly interesting example can be found in 1934, written by Stanford education professor Walter Crosby Eells (1934). With the exception of a couple of introductory paragraphs and a conclusion, the entirety of the article consists of then-contemporary criticisms of the academy. The charges levied at the academy at that time sound very similar to some of the arguments made today (Eells, 1934, p.187):

They say that our universities are aimless institutions that have prostituted themselves to every public whim, serving as everything from a reformatory to an amusement park; they are only service stations for the general public; they are a bargain-counter system presided over by quacks; they are places where pebbles are polished and diamonds dimmed. The trustees according to the critics are men entirely unfitted for their tasks, ridiculously conservative and fearful, controlled body and soul by Wall Street. The presidents are liars and hypocrites, academic Machiavellis, who dull the intellectual life of the colleges, cow the faculty, and stultify
Clearly dissatisfaction with higher education is not new. It would be easy to look at the persistence of these criticisms, combined with the continued growth of the higher education sector and feel like nothing needs to be done. In my opinion, this would be the wrong view to take. There are numerous pressures facing higher education that, when combined with the rising visibility of the academy’s critics, are going to lead to change. These pressures include, but are not limited to: stagnating U.S. economic growth (Cowen, 2011), declining U.S. birth rates (Belkin, 2013), Medicaid and Medicare crowding out state support for higher education (Kane et al., 2005; Delaney and Doyle, 2011), and the increased perception that the costs of higher education exceed the benefits for many (Vedder, 2004; Bennett and Wilezol, 2013).

A variety of reforms have been suggested to reform higher education. While reform means different things to different people, mostly what is meant by reform involves lowering costs, improving productivity, or doing thing different in order to achieve some broader social goal. For example, I edited a volume of essays devoted to the topic of reforming institutions internally (Hall, 2010). Suggestions made in that volume primarily focused on ways that colleges and universities could save money in the area of operations (Kerekes, 2010), athletics (Shughart, 2010), and management (Hollian and Ross, 2010). In addition, a couple of chapters highlighted two entrepreneurial efforts to try to lower costs and improve productivity, one at a for-profit university (Woods, 2010) and another within an economics department at a major state university (Mateer, 2010). More recently, Vedder (2014) lists 36 steps that could be made to reform American higher education. Other examples include Bok (2015), DeMillo (2011), Stevens and Kirst (2015), and Zemsky (2013).

A prominent reform that is often raised is changing accreditation, the voluntary
self-regulation process that colleges and universities engage in. Accreditation historically was seen as providing quality assurance and quality improvement for the consumer but recently has come under fire. For example, Vedder (2014) lists “eliminate or reshape academic accreditation” as step number 17 in his 36 reform steps. In fact, he denotes it as a most important step. Vedder gives several reasons for the elimination or changing of accreditation, including: (1) accreditation provides little useful information because both high and low-quality schools receive the same accreditation; (2) they are poor at measuring quality because they focus on inputs, not outputs; (3) they restrict entry into the higher education marketplace; and (4) they are riddled with conflicts of interest. Others calling for reform or elimination of the accreditation process include Leef and Burris (2002), American Council of Trustees and Alumni (2007), Gillen et al. (2010), and Burke and Butler (2012). Perhaps most importantly, accreditation was listed as having significant shortcomings in the report of the Spellings Commission (Spellings, 2006).

There are four types of accreditation organizations in the United States: regional accreditors, national faith-based accreditors, national career-related accreditors, and programmatic accreditors (Eaton, 2012). Regional accreditors primarily accredit degree-granting two-and four-year institutions such as Beloit College, Ohio State University, or West Virginia University. National faith-related accreditors focus on accrediting degree and non-degree granting religious institutions such as the Moody Bible Institute in Chicago. Career related accreditors accredit career-based, single-purpose institutions such as West Virginia Junior College in Morgantown, WV.¹ Programmatic accreditors focus on specific academic programs and schools, like AACSB International, which accredits degree programs in business administration and acc-

¹West Virginia Junior College primarily provides associate degrees in business, computer science, network administration, etc.
counting (Eaton, 2012). While all four types of accreditors are important, my discussion here primarily focuses on the regional accreditors, since that is where the majority of students, activity, and criticism is centered.²

Initially, I was very skeptical of accreditation being a large problem. It seemed to me that many of the critics were engaged in some form of what Demsetz (1969) termed the nirvana fallacy. In its simplest form, the nirvana fallacy assumes that there exists some ideal compared to the current system. This assumption is problematic for at least three reasons. First, reforms often can make things worse if reformers do not understand what drives the current system. Changing or eliminating an institution without some other institution in place to meet their needs will often lead to a worse situation.³ Second, the proposed solution might be worse because reformers fail to understand how the new system will change the incentives of those within the system.⁴ Third, the implemented solution might not be as efficient or effective as what had existed prior.⁵

In Hall (2012) I argue that given the demand for quality regulation in higher education, economists’ default should be that free individuals left to their own devices will produced institutions that meet their needs. As I stated then (Hall, 2012, p. 237), “The institutions that solve problems at the lowest cost cannot be known a priori; they must be discovered through trial and error and the marketplace’s in-

²The Council for Higher Education Accreditation (CHEA) is the advocacy voice for voluntary higher education accreditation in the United States. As part of their mission, CHEA recognizes accrediting organization that meet their eligibility standards. CHEA’s President, Judith Eaton, has been a forceful advocate for self-regulation and assessment (Eaton, 2015a).
³A non-higher education example would be those that call for regulation of bank overdraft protection without realizing that many individuals use overdraft protection to provide short-term liquidity instead of high-interest check cashing stores or pawn shops (Zywicki, 2012).
⁴For example, consider the example of high-stakes testing that came about as a result of the publication of A Nation at Risk (Gardner et al., 1983). Nichols and Berliner (2007) detail the unintended consequences of high-stakes testing on American schools. See also Ross (2008).
⁵As an example, McKenzie (1996) argues that in many respects orphanages were superior to today’s foster care system.
formation revelation process.” The “right” level of regulation or assessment is not some thing that can be determined scientifically, instead it has to be discovered in the marketplace. What is the optimum minimum quality standard for Best Western? The answer, of course, depends on the benefits member hotels receive from the Best Western assurance to consumers weighed against the costs of compliance with their voluntary standards (Holcombe and Holcombe, 1986).

While I stand by that general statement, with respect to higher education accreditation I have become convinced that calls for reform have merit. My thinking on this issue began to change while reading Bennett (2014), who shows that higher education in the United States has never been *laissez-faire*. Combined with a contemporaneous reading of *The Long Divergence: How Islamic Law Held Back the Middle East* by economic historian Timur Kuran (2012), I began to see how the institution of accreditation, which solved a problem at one point in time, was now making things worse due to its interaction with the political system.\(^6\) We are no longer in the world of the first or second best as the federal government’s involvement has severally distorted the information and incentives provided through the current “voluntary” system of regional accreditation.

I proceed as follows. The second section discusses the history of accreditation in the United States up to World War II. I show that accreditation prior to the G.I. Bill was primarily self-regulation and that consumers buying education largely with their own money put pressure on schools to keep value high. The third section moves on to the post World War II period, where I discuss how the G.I. Bill fundamentally changed the incentives of students, schools, the accreditors, and the federal government in a way that has led to increasing costs and uncertain quality. I conclude that the G.I. Bill

\(^6\)Kuran’s work shows how the institutions of Islamic Law were efficient for centuries in terms of achieving relatively high living standards but, over time, those same institutions prevented political change that was necessary for economic advance.
set in motion changes that have transformed accreditation from a voluntary process to an implicit form of government regulation that exacerbates the problems created by third-party payment in higher education. The fourth section concludes with some general thoughts and a possible proposal for reform.

2 Pre-G.I. Bill Higher Education Accreditation

Institutions of higher education pre-date the establishment of the United States as a nation. In 1745, there were only three colleges in North America: Harvard, Yale, and William and Mary (McAnear, 1955). As detailed by Bennett (2014), a total of nine colleges were established during the Colonial period. While these were primarily religious institutions, they were creatures of the state insofar as they required a charter from the colonial government or the Crown to begin operation. These charters essentially granted colleges a monopoly over the awarding of degrees in each colony (Trow, 1988). In that manner they acted like a very weak form of accreditation, especially given that the goal of most colonial colleges was to train ministers and other community leaders (McAnear, 1955). After all the only college allowed to operate in a colony had to be of high quality!

Accreditation as we know it today really developed around 1900 (Gillen et al., 2010). As the President of CHEA, Judith Eaton (2006), put it, “[w]hen accreditation was created 100 years ago, it sought, first and foremost, to serve higher education institutions and programs.” The issue at hand was really an issue of signaling quality in a growing market that was highly decentralized. The number of students enrolled in institutions of higher education had doubled in just 20 years and the number of institutions increased by 166 (El-Khawas, 2012). In this expanding environment old measures of assessing incoming students were becoming less accurate and/or more
costly.

The earliest forms of what we now know as accreditation arose during this period from 1880 to 1900 (El-Khawas, 2012). Four of our current regional accreditation associations had their start during this time, although the reason for their original creation was not accreditation. Historically, schools had relied on direct knowledge of specific national preparatory schools or secondary schools in their limited geographic area. As secondary education began to grow, especially outside the Northeast of the United States, the information problem of adequate preparation for college-level work became more acute. This was especially true for Midwestern or Southern students wanting to go east for college, as there was great concern among college administrators in the East about the quality of preparation in Midwestern and Southern secondary schools (El-Khawas, 2012). Schools tried to deal with this in a variety of ways. In New England, many schools developed a common entrance exam (El-Khawas, 2012). Other schools developed their own entrance exams and, for those students who did not make the cut, eventually developed their own preparatory schools to get students up to speed. This was especially true in areas with weak or nonexistent secondary schools.\footnote{For example, Beloit College ran the Beloit Academy to prepare students for the college through 1910.}

Eventually, colleges and universities in different regions realized they had the same concerns and formed associations to deal with the issues they had in common (Selden, 1960). While the most pressing issue was determining what constituted an adequate education at the secondary level for admission to higher education, they eventually turned to accrediting colleges and universities. This was a logical outgrowth of their certifying secondary schools and the problem of dealing with information problems created by students crossing regional lines for college or universities. In 1905, for
example, the North Central Association (NCA) created the first list of certified secondary schools in a region (El-Khawas, 2012). These regional associations therefore filled a very important quality assurance need at the time by providing some basis for college admissions officers to determine whether or not a student’s secondary preparation prepared them adequately for college.

It is important to remember that absent local knowledge or a letter of recommendation from someone who was well-known to the college, the alternative was creating a written or oral entrance exam. This information was not only important to colleges and universities, it was important to students who wanted to make sure that they were studying the right material or at the school to get into the higher education institution of their choice. Not only did students of that time not have the ability given the technology of the day to assess quality, given the lack of local and regional options, this inability to assess quality was crucial given the geographical constraints that many students faced.

During the early part of the twentieth century more students were transferring between institutions both domestically and abroad. The regional associations began to certify colleges and universities as meeting minimum quality standards to be a member. For example, the NCA provided its first list of accredited schools in 1913 and the Southern Association of Colleges and Schools (SACS) in 1919 (El-Khawas, 2012). These lists were designed with an eye towards distinguishing between what preparatory schools, normal schools, secondary schools, and colleges and universities Leef and Burris (2002). Consider the list of requirements the NCA said a college must have (Shaw, 1993, p. 334, quoted in Leef and Burris (2002)).

1. follow respectable entrance requirements

2. offer courses selected from the classics
3. ensure a minimum of eight departments headed by full-time instructors, each possessing at least a masters degree

4. provide a good library

5. properly prepare students for post-graduate study

6. have a maximum class size of 30

7. have a productive endowment of at least 200,000 dollars

This was during a period where there was real concern about the quality of graduates of a number of schools among employers and other colleges and universities (Areen, 2011). For example, foreign institutions began to not recognize degrees from U.S. universities unless they were members of the Association of American Universities (AAU), with the University of Berlin leading the way in 1912 (Zook et al., 1936). A special committee of the AAU was led by Charles Eliot, the then President of Harvard, to evaluate whether the AAU should assess the quality of U.S. institutions beyond providing a list of its own members and criteria for membership. As quoted by (Areen, 2011, p. 1478), the report concluded:

It is the duty of this Association either to standardize American Universities, and thus to justify the confidence which foreign governments repose in them, or to notify those governments that there are American Universities outside this Association whose work and standing are not inferior to universities now members of the Association.

Ultimately, the AAU decided not to review colleges and universities. The U.S. Bureau of Education during the Taft administration briefly considered undertaking the task, but President Taft put a stop to it in 1912 in response to public outcry over
the idea of federal involvement in higher education (Zook et al., 1936). While the American Council of Education tried taking on the role of accreditor for a brief period, they gave up being a national accreditor in 1935 (Areen, 2011). What remained at the end was the regional accrediting agencies. In spite of the fits-and-starts that accreditation undertook, prior to 1936 it was a voluntary system designed to provide information about quality to students, employers, and other colleges and universities (Gillen et al., 2010). Customers used the information provided by these accreditation agencies and colleges and universities were willing to expend their own resources in the accreditation process (Leef and Burris, 2002).

There is very little evidence that colleges and universities during this period used accreditation in an anti-competitive or rent-seeking manner. With the intent being to distinguish high quality institutions from low-quality ones, the barriers to accreditation suggested by the early NCA criteria seemed appropriate to the time period given the nature of higher education production. To the extent that colleges and universities were being anti-competitive or rent seeking during this period, it seemed mostly to occur through public institutions lobbying state legislatures for special favors. For example during this time period in Ohio, there were numerous attempts by supporters of Ohio State University to limit the operations of Ohio and Miami University.\textsuperscript{8} This makes sense that most public support to higher education at this time was institutional-based, not student based.

It is important to highlight that after Taft’s stopping of the U.S. Bureau of Education in 1912, there was essentially very little government involvement in accreditation (Ewell, 2008). The lack of government involvement in education, especially with respect to regular financing of tuition (even at many state universities) mean that accountability was only to students, employers, and other higher educational institu-

\textsuperscript{8}On this point generally see Hollow (2003), especially p. 99
tions. These voluntary membership organizations worked well since if the information they provided was inadequate or in error, they received feedback from member institutions. Even if they wanted to use accreditation in an anti-competitive manner to limit entry into the higher education marketplace by raising everyone’s costs, they did not have market power as economic barriers to entry were low and with little government funding, new entrants were not at a competitive disadvantage. As a result, there was flourishing of new institutions, such as professional schools focused on business or law.\(^9\)

The rise of new institutions not only shows how little market power accreditors had at the time but also how the higher education marketplace responded to a growing number of high school graduates eager to take advantage of the returns to additional education (Goldin and Katz, 1999). The high labor market returns to increased education, combined with relatively low tuition, led to growing enrollments during this period at both public and private institutions. It is important to note, however, that students and families were still paying tuition and room and board out-of-pocket during this period as there was no federal G.I. Bill, Pell Grants, or federally-subsidized student loans. As a result, families were very sensitive to differences in both price and quality. According to Goldin and Katz (1999), enrollment at public institutions of higher education grew relative to that of private institutions during this period because students responded to their lower tuition and room and board fees. Goldin and Katz (1999) also find that students were responsive to changes in public school tuition during this period, with lower public school tuition and room and board leading to higher enrollment. Direct state support to institutions of higher education therefore affected tuition and enrollment decisions, but did not weaken consumer

\(^9\)See, for example, the rise of the YMCA evening law schools (Bahls and Jackson, 1997; Finnegan, 2005) and the discussion in Rotella (1981) on the rise in private commercial and business schools during this era.
incentives to care about cost and quality.

In this marketplace where students and families were largely paying out-of-pocket, the standards of accreditation agencies were sufficient to distinguish across types of institutions. Gillen et al. (2010) notes (p. 13) that “Those institutions that were accredited by reputable accreditors stood out as better than those that were not (or were accredited by a lesser accrediting body).” Accreditors at the time were largely focused on distinguishing across different types of institutions based on easily observable standards such as faculty size, library volumes, and size of endowment (Gillen et al., 2010). While measures of “quantity” rather than “quality”, these features of higher education institutions were enough to differentiate across institutional types for both consumers and member institutions. And since government support came in the form of direct support to institutions of higher education or land subsidies, accreditation did not serve any public accountability purpose (Watson, 2013). Students were free to go to any type of institution they wished—accredited or unaccredited—and policymakers were free to directly monitor institutions that received public funding to ensure that public funds were being used in a manner consistent with their legislative purpose.

The period leading up to 1940 seemed to be a well-functioning higher education marketplace with few reasons for citizens and policymakers to be concerned about cost or quality in general. Students and families paid for tuition and room and board out of their own funds and thus had strong incentives to ensure that college was worth what they were paying.\textsuperscript{10} Federal and state support of higher education was typically for specific purposes such as research or the promotion of agricultural and mechanical fields (Morgan, 2008). In that environment, policymakers could easily

\textsuperscript{10}And many of them thought it was worth the cost as higher education enrollment tripled from 1910 to 1940 (Goldin and Katz, 1999).
monitor outcomes (was the research completed, how many graduates in mechanical fields?) in order to hold institutions accountable for public funds. Finally, accrediting agencies competed among one another for reasonable ways of differentiating across institutions. According to (American Council of Trustees and Alumni, 2007, p.12), the competition among agencies kept the information component of accreditation high while not becoming overly burdensome, since “[t]he knowledge that institutions could drop accreditation kept associations from becoming dictatorial or attempting inappropriately to influence the content of education.” No single entity had enough influence to directly capture or impede market forces and as a result the system largely worked well for all involved.11 Things would change, however, following World War II.

3 The G.I. Bill and the Transformation of Accreditation

Like the enrollment boom of the late nineteenth century, the increase in higher education enrollments following WWII introduced new problems. For institutions, there were problems of where to put all the students and deal with *in loco parentis* with older students who had been through war and were not willing to be subject to its strictures (Morrill et al., 1986). The biggest change, however, was in the federal government’s role in higher education. The original G.I. Bill and its reauthorization in 1952 introduced the federal government as a significant direct financier of higher education in the United States (Sipley, 2011). Morgan (2008) notes (p. 540) that

11Beaver (2012) argues that during this period that low-quality, proprietary, for-profit schools experienced relative decline. While he does not link this to decline to the lack of third-party payers, it is certainly consistent with the data.
the “[t]he G.I. Bill introduced the concept of national, student-centered support for higher education.” Not only did it change the scope of federal government activity in higher education, it changed the scale, with over one million students enrolled in higher education institutions in 1946 on the G.I. Bill (Morgan, 2008). According to Bound and Turner (2002), this was about 70 percent of male higher education enrollment in the post-war period!

No longer was the government directly funding institutions. Under the 1944 G.I. Bill, funds were paid directly to institutions based on the enrollment decisions of veterans. Students still had the freedom to attend the institution of higher education of their choice. For the veteran, however, the calculation had changed. Since tuition dollars no longer came out of his pocket, the question was no longer whether or not the degree was worth the cost. Since veterans could only take advantage of the higher education benefit of the G.I. Bill if they enrolled in an institution of higher education, the question was the degree worth more than the cost of their time going to school? For veterans who were indifferent between going to college and the workforce, free tuition and room and board made going to college or university—any university—a no-brainer.

Not surprisingly, many veterans using the G.I. Bill were less concerned about the degree they were obtaining than pre-World War II applicants who were paying the full tuition cost. Almost immediately there were widespread reports that some veterans were going to “diploma mills.” On the supply-side, a number of for-profit institutions recognized that a number of veterans wanted to take advantage of the benefit but were less concerned about quality (Beaver, 2012). Under the original G.I. Bill, the only restriction on an institution’s ability to receive federal aid was state authorization, which was a mere formality that did not involve issues of quality (Gillen et al., 2010). As a result, “[s]ome schools existed to collect government funds
and offered little actual education (Beaver, 2012, p. 275).” These, and other abuses like the overstating of costs, occurred with colleges and universities of all types that enrolled veterans under the G.I. Bill. For example, a General Accounting Office study at the time noted that 65% of colleges and universities employed questionable financial practices that led them to overcharging the federal government.\textsuperscript{12}

The G.I. Bill and the influx of students onto college campuses who were not contemporaneously paying for the good they were consuming completely changed the higher education marketplace. By and large, when consumers pay for the product out of their own-pocket, they have an incentive to minimize expenditure given a certain level of quality or looking for the highest quality given a specific amount of expenditure. If they don’t find a price/quality combination that they like, consumers can just not choose to spend their hard earned dollars on that good or service and instead spend it on other goods and services that provide them with more value. When consumers are not paying out of their own pocket or cannot use the resources on other goods and services, the incentive for cost containment and quality control are lessened.\textsuperscript{13} Once such a higher percentage of college students were no longer paying the direct cost of education, consumer discipline could not longer be counted on to push schools towards cost minimization and quality.

In the wake of the diploma mill scandal and the subsequent Governmental Accounting Office report, Congress took steps in 1952 to try to fix the accountability problem that they had created with the G.I. Bill. In passing the Veterans’ Adjustment Act of 1952, which extended G.I. Bill-style higher education benefits to Korean War veterans, Congress required the Commissioner of Education to publish a list of nationally recognized accrediting agencies (Gillen et al., 2010). Only schools recog-

\textsuperscript{12}Report cited in Beaver (2012).

\textsuperscript{13}For more on this point, see Chapter 6 of Gwartney et al. (2014).
nized by recognized accrediting agencies would be eligible to receive federal student aid (Watson, 2013). Then Commissioner of Education Ed McGrath listed the six accrediting agencies that currently oversee higher education accreditation in the United States, thereby imposing on private accrediting associations a new purpose–public accountability. This new charge–a government-sponsored cartel with access to federal funding–substantially changed both accreditation and higher education.\textsuperscript{14}

Linking access to federal funds with regional accreditation fundamentally changed accreditation away from a voluntary member organization that provided quality assurance to a government-sponsored cartel. As Gillen et al. (2010) notes (p. 29), “[s]ome critics of accreditation have thus described the regional accreditation system as cartel-like, with each accreditor granted a regional monopoly with a guaranteed market for customers without having to provide much benefit.” Colleges and universities that wanted to enroll students using federal funds had to be accredited, which by itself was not problematic. However, the regional accreditation system established in 1952 by Commissioner McGrath essentially ended competition among accreditors for members (Watson, 2013). The lack of competition among accreditors meant that the standards of accreditors stopped responding to feedback from members and instead largely converged towards one another. This fundamentally changed accreditation in the United States from self-regulation similar to Underwriters Laboratory to an indirect form of government regulation.

Like the imposition of rent control in New York City after World War II, the implications of this change to the marketplace took some time to become apparent even though the underlying market institutions had been radically changed. The G.I. Bill and its subsequent incarnations, while large, were still fairly modest for many

\textsuperscript{14}Areen (2011) notes that(p. 1483), “the most significant challenges to accreditation have come from the federal government.”
institutions and temporary. For many smaller institutions it was still not worth going through the costly accreditation process and thus accreditation was not absolutely necessary during the 1950s (Watson, 2013). With the passage of the Higher Education Act (HEA) of 1965, however, accreditation became a necessity for nearly all higher education institutions (Gillen et al., 2010). An important part of President Johnson’s “Great Society” programs, the HEA greatly expanded and made permanent a financial role for the federal government in higher education (Sipley, 2011). What Gillen et al. (2010) call a “massive and permanent expansion of federal funding” made permanent the federal government’s involvement in higher education that began with the G.I. Bill.

The pre-World War II system of higher education worked well in terms of cost containment and quality control because no individual person or entity had too much power. Individual self interest was harnessed by the competitive forces of entry and exit. Students and families chose institutions based on a combination of academics and cost. If they didn’t find something they liked, they were paying with their own funds and so would evaluate against other potential uses. Accreditors wanted to differentiate among different types of institutions in order to benefit their members. They were limited in what they could do for their members, however, by competition in accreditation and in entry into the higher education marketplace. Accreditation was a form of quality assurance, but there was no way to turn that quality assurance into anti-competitive behavior or to act in a way contrary to member wishes since colleges and universities could always find another accreditor. The states and the federal government intervened in targeted ways that limited their influence, such as encouraging the creation of universities, or the study of agriculture or mining, or

---

15Title IV of HEA provided federal grants for low-income students and federally subsidized loans for middle-class students (Sipley, 2011).
financing institutions directly. While distorting the market process, they did not short-circuit the competitive forces that are crucial to cost-containment and quality control.

The G.I. Bill fundamentally changed higher education in the United States by short-circuiting the low-cost and decentralized accountability that comes with people spending their own money on goods and services they value. The rise of diploma mills in the wake of the G.I. Bill is clear evidence that people never spend others’ money as carefully as they do their own. Once the normal accountability system that exists in the marketplace was broken, the federal government “fixed” the problem by making the accreditors the gatekeepers to federal funding. Not only did this cartelize the regional accreditors, it effectively eliminated competition among accreditors. In addition, it meant that accreditors now had two bosses: their members and the federal government.

An understanding that accrediting agencies have spent the period since 1965 torn between serving their members and the federal government helps to explain two salient features of accreditation in post-1965 period: accreditors largely trying to continue with the status quo and the federal government increasingly ratcheting up their oversight of the accreditation process. First, the accreditors have largely continued with measuring quality by inputs (Leef and Burris, 2002). Measuring quality by inputs such as physical infrastructure, size of the faculty, qualifications of faculty, degree program length, etc., clearly serves members by acting as a barrier to entry while not pushing on the issue of whether students actually are learning. The costs to members of compliance with accreditation mandates is substantial and certainly contributes to the rising cost of higher education in the post-1965 period. While the overall effect of compliance with accreditation is difficult to measure, Gillen (2013) estimates that accrediting agency mandates to reduce faculty workloads alone has increased tuition
by $2,598 for the average student at a four year college.

Institutions are willing to put up with such high costs for several reasons. First, accreditation means access to federal funding, which is nearly essential to survive in today’s highly subsidized higher education marketplace.\(^{16}\) Second, many of these input-based measures, such as lower teaching loads, make the lives of faculty and staff at institutions much easier. While normally activities that raise costs to consumers without any concomitant value increase would be eroded by competition, the fact that everyone must be accredited by roughly the same standards puts limits on institutional competition that would drive costs down. Similarly, new ideas and innovations in well-functioning markets tend to come from new entrants. The cost to new universities of obtaining accreditation, however, is substantial. One estimate put the cost at $10 million and ten years of effort for a 50% chance (Golden, 2010). These costs thus act as a barrier to entry, especially entrants with the potential to be extremely disruptive, such as low-cost and online entrants.\(^{17}\)

A second salient feature of the post-1965 period has been increasing calls for greater accountability by the accrediting agencies, which has resulted in more federal oversight. Just as the post-World War II diploma mills led to the linking of accreditation and federal funding, as rising costs and quality concerns have become more prominent in higher education the federal government has become increasingly involved in the “voluntary system of self-regulation.” For example, in the early 1990s default rates on student loans were substantial, averaging about $3 billion a year (Leef and Burris, 2002). Congress blamed accreditors, in part, for these losses, with the Inspector General of the Education department testifying before the House Education

---

\(^{16}\)The two obvious exceptions of accredited institutions where students cannot receive federal funds are Hillsdale College and Grove City College, both of whom have very distinctive identities.

\(^{17}\)It should also be noted that barriers to new entrants serve accreditors as well. Unlike in a competitive marketplace where more institutions accredited mean more business, in the post-G.I. Bill era making a mistake by accrediting a new entrant is politically risky.
and Labor Committee that the accrediting agencies were not effectively accrediting schools and that this was partly responsible for the high default rates (Leef and Burris, 2002).

The result was a significant number of changes to accreditation in the 1992 Reauthorization of the Higher Education Act (HEA). Areen (2011) calls the 1992 HEA reauthorization a “serious federal challenge to private accreditation.” This legislation required each state to establish an entity that would review higher education institutions. In addition, this legislation placed limits on distance learning, the percentage of an institution’s budget that could come from federal funding, and gave accreditors learning assessment requirements (Gillen et al., 2010). While the state oversight was eventually unfunded and then eliminated, the federal government continues to push for increased assessment of student achievement in a variety of ways. For example, in 2006 the U.S. Department of Education proposed that accreditation agencies set and enforce minimum standards for student achievement (Fritschler, 2007). Politically, this level of direct intervention was unpalatable and Congress prohibited the U.S. Department of Education from directly regulating the manner in which accreditors assess student learning in the Higher Education Opportunity Act of 2008 (Areen, 2011).

It would be wrong to call this fighting back on federal oversight the preservation of self-regulation. The damage has clearly been done. The long-time Chancellor of Western Carolina University, John Bardo (2009), spoke matter-of-factly in a 2009 essay about the “balance between federal and self-regulation” related to student learning and assessment. In that essay he spoke candidly about the balance that exists between the historical approach of peer review and government regulation (Bardo, 2009, p. 49):
And because of the legal tie between federal financial aid and regional accreditation, it should be expected that the regional accrediting bodies will continue to be used by the federal government as a major instrument to effect change in colleges and universities. ... And it should be expected that there will be pressure on these associations to incorporate increased institutional regulation. The long-term question, then, is to what extent regional accreditation will be based on federal regulation and to what extent it will reflect the professional opinions and stances of academic professionals.

As Bardo (2009) points out, this pressure from the federal government has already caused accrediting bodies to change their behavior. SACS, for example, broke with tradition and began a mandatory fifth-year interim report so as to address assessment concerns raised by the U.S. Department of Education. In the past, only colleges or universities that had failed to meet certain standards in the past were required to undertake a fifth-year report. If ever there was doubt that the activities and decision-making of the regional accreditors did not occur in the shadow of future federal government policy decisions, consider CHEA President Judith Eaton’s recent essay at Inside Higher Ed. In the essay, which discusses the forthcoming Postsecondary Institutions Ratings System, Eaton (2015b) says “...establishing the system may mean the end of more than 60 years of accreditation as a partner with government, the reliable authority on educational quality to which Congress and the Education Department have turned.” That certainly sounds like the accreditors and the government are moving in tandem, unrelated to the underlying fundamentals that first brought institutions together to set standards of quality.

Two things are clear from the post-1965 period. First, in an era with significant
third-party payment for higher education and no competition among accreditors, the information content of accreditation has limited to no value in terms of ensuring something beyond a very low level of quality. When Fuller Theological Seminary, the Laguna College of Art and Design, and Stanford University are accredited by the same accreditor, how can accreditation have any information content regarding quality? Second, conflicts between the accrediting agencies and the federal government will continue to occur as the accrediting agencies would like to continue with the status quo (input-based measures of quality and accreditation ensuring access to federal funds) and the federal government would like to keep program costs down and ensure that students are learning.\(^\text{18}\)

### 4 Concluding Thoughts

After reviewing the history of higher education accreditation, it seems pretty clear that higher education accreditation is more government regulation than self-regulation. Why is this important and what does this mean for higher education reform? In my opinion, it is important question to answer because many conservatives and libertarians are extremely hesitant to tinker with nongovernmental solutions to market failures that have survived the test of time.\(^\text{19}\) If higher education accreditation is not market regulation and instead a type of government regulation, then concerns about changing the current system should be reduced. In terms of higher education reform, the issue therefore becomes which is the best way forward if the goal is to ensure that consumers get something of value? Pre G.I. Bill we knew consumers valued the education they received because they paid for it. Is it at all possible to get back to

\(^{18}\)I use the term “federal government” here to mean the manifestation of the political economy of the demand for greater accountability.

\(^{19}\)With good reason.
that situation?

I suspect the answer is no. The federal government as financier of higher education seems to be here to stay. Taking that as a binding constraint, what can be done? One possibility would be to cut the tie between the accreditation agencies and federal funding. After all, accreditation arose in an era where there was very little information available publicly about colleges and universities. Now there exists a plethora of information about college and universities from both governmental and non-governmental organizations such as *U.S. News and World Report* and *Forbes*. Let a thousand flowers bloom in terms of information providers. Accreditation agencies could still exist, if they were to provide value to their member institutions, just like professional accreditors such as the Association to Advance Collegiate Schools of Business (AACSB). The value of accreditors would rise and fall with the value of the assurance they provide to consumers, as well as the other bundled goods they might provide to their members.\(^{20}\)

How should the federal government decide which institutions should be eligible for federal funding? One possibility suggested by Watson (2013) would be to entrust the job of quality assurance to the states. The federal government could make state authorization to operate the prerequisite for receiving federal dollars. Such a system would have two important benefits. First, having fifty different state accrediting agencies would inject some much-needed competition into the accreditation process, especially with respect to new colleges and universities that might want to open. Second, such a system would align state-level and federal-level political incentives.

\(^{20}\)Leef and Burris (2002) makes the case for this approach, while Gillen et al. (2010) discuss it but ultimately reject it because there are no reliable measures of student learning currently available. In my opinion, this view reflects the crux of the difficulty with federal financing of higher education in a diverse society. How can there be no one or even many reliable outcome measure to assess schools? People can’t even agree on what constitutes an appropriate school lunch or how to teach math.
Like the federal government, states care about both keeping higher education costs low and quality high while ensuring access to higher education. States would thus have a strong incentive to discover the best way to minimize waste and ensure quality while also remaining politically accountable to voters in each state.

This is but one possible reform to the current dysfunctional accreditation system that has led to increased costs and reduced innovation. While higher education accreditation once served a laudatory purpose in terms of quality assurance, it has evolved into a cartel caught between entrenching the status quo and responding to calls for greater public accountability. Ultimately, the roots of our higher-education accreditation problems are political in nature and any reform needs to try to incorporate stronger feedback from voters fed up with waste and inefficiency in higher education.
References


