Higher Education Accreditation: Market Regulation or Government Regulation?

Joshua Hall
Department of Economics, Beloit College

Introduction

In recent public debates regarding higher education there has been considerable attention paid to the issue of general accreditation of higher education institutions. In 2006, for example, the so-called Spellings Commission issues a report calling for significant changes in accreditation (U.S. Department of Education 2006, p. 15), noting that:

> Accreditation, the large and complex public-private system of federal, state and private regulators, has significant shortcomings. Accreditation agencies play a gatekeeper role in determining the eligibility of institutions and programs to receive federal and state grants and loans. However, despite increased attention by accreditors to learning assessments, they continue to play largely an internal role. Accreditation reviews are typically kept private, and those that are made public still focus on process reviews more than bottom-line results for learning or costs. The growing public demand for increased accountability, quality and transparency coupled with the changing structure and globalization of higher education requires a transformation of accreditation.

The Commission also calls out accreditation for maintaining the status quo. A later finding (p. 16) is that "Accreditation and federal and state regulations, while designed to assure quality in higher education, can sometimes impede innovation…."

In this short paper I briefly explore the issue of accreditation in higher education. To tie directly into the theme of this conference I look at the extent to which general accreditation of colleges and universities as practiced in the United States has emerged from the needs of students and colleges and universities or has been planned from the top down. If accreditation is an emergent phenomenon like a marketplace, then as social scientists we should be extremely skeptical of attempts to "fix" what might not be broken.[1]

Where Does Quality Regulation Come From? The Demand for Quality Regulation

Some goods and services have qualities that are easier to observe than other products and services. For example, it is fairly easy to determine the quality of a book while thumbing through it in a bookstore. It is more difficulty, however, to ascertain the quality of a physician by seeing a picture of her in a white coat or speaking with her for a few

[1] This is not to deny that there are not perverse emergent orders (Martin and Storr 2008). Quality-and-assurance regulation, however, clearly appears to be beneficial to the parties involved in these voluntary transactions.

moments. If consumers feel that certain qualities are desirable but are unable to divine those qualities ahead of time then they might be willing to pay for regulation. Conversely, firms in areas where quality is difficult to ascertain ahead of time might also demand regulation in order to assure consumers that their product is valuable or safe.

Like all investment decisions, the decision to invest in human capital is fraught with peril. As Williams College economist Gordon Winston puts it in a 1999 *Journal of Economic Perspectives* paper (p. 15), "People investing in human capital through a purchase of higher education don't know what they're buying—and won't and can't know what they have bought until it is far too late to do anything about it." It seems obvious that potential students want some form of quality-and-assurance regulation of some form to help insure that they will receive what they purchased, within some range. In addition, colleges and universities want to convince students and families that they are actually providing the good that the student thinks she is purchasing. If students cannot ascertain whether a college or university is actually providing graduates with the knowledge, skills, and post-secondary experience that they claim to provide, then students might not enroll and colleges and universities might have difficulty covering expenses.[2]

The Market for Quality Regulation in General

If quality regulation is valuable to both consumers and producers, we should see such regulation provided without government intervention. One prominent example of voluntary private quality regulation is Underwriters Laboratory (UL). UL is a private sector regulatory firm that tests electrical equipment such as appliances. The firm's revenues come from payments by companies whose electrical equipment it tests and then certifies as having met UL's standards for quality. Their UL logo is ubiquitous in the appliance section of any major retail chain.

Producers of electrical equipment and appliances apparently feel that there is enough value to having the UL sticker on their product that they voluntary submit to private regulation. Firms are willing to undertake this additional expense because customers directly or indirectly value the higher quality standards of UL. For example, many customers look for the UL label on products they plan on purchasing, as I did with the decorative light strings I purchased this holiday season. Even those individuals who are not aware of the UL certification benefit, however, because others in the marketplace notice and care. For example, many businesses require that their purchasing agents only purchase UL tested equipment, which has the effect of raising standards for all consumers (Holcombe 1995).[3]

---

[2] This argument is similar to why the issue of asymmetric information does not lead to the unraveling of the used car market. Since used car sellers know that potential purchasers are concerned about being taken advantage of, they try to assure buyers through brand names and extended warranties. For more on the used car market, see Bond (1982).

[3] Markets can provide several different forms of quality assurance of which private certification is just one type. Brand names, for example, are another form of quality assurance. For a full list, see Klein (1998).

The Market for Quality Regulation in Higher Education

If quality regulation is valuable to students and colleges and universities, then we should also observe individuals expending resources creating information or creating institutions that provide information about the quality of higher education without government intervention. This is largely what happened in higher education in the United States, both with the regulation of specific occupational schools (such as medical schools and law schools) but also with general accreditation of colleges and universities. During the last two decades of the 19th century, four different regional accreditation agencies formed: New England, Middle States, North Central, and Southern (Finnegan 1991).

The reasoning behind the process of self-regulation was straightforward and related to solving an information problem, according to accreditation scholar William Selden (1976, p. 7):

> The original purpose of institutional accreditation was to establish some common standards among colleges and universities in order to improve articulation between high schools and colleges, and to protect the presumed better institutions from those that were shoddy, weak, and improperly competitive.

The first list of accredited institutions appeared in 1913 by the North Central Association of College and Secondary Schools.[4] Up until the 1950s, accreditation for the purpose of standardization and quality control was done without federal government involvement and with little other regulation by states. The idea that accreditation is somehow not part of an emergent order would seem to run up against the fact that colleges and universities imposed regulation on themselves.

Increasing Federal Involvement

While states had become involved in quality certification of specific programs (most specifically teacher certification) around the turn of the twentieth century, the federal government did not generally become involved in the issue until after World War II. With the advent of the G.I. Bill, a large number of former soldiers were returning to higher education during the post-war period and there was concern that some of the institutions they were attending were of dubious quality. It was not until 1952, however, that the federal government began to recognize accredited institutions in order to ensure that Korean War Veterans using the G.I. Bill were receiving education of some minimum quality (Wellman 1998).

Since that time, the federal government has become more involved in the accreditation process through the recognition process of accreditors. Institutions want to be accredited

[4] My institution, for example, has been accredited by the North Central Association since 1913.

so they can access federal subsidies for higher education. Accreditors want to be recognized by the federal government because without that recognition, schools will go to other accreditors. So as the amount of federal dollars going to higher education has increased, so has the power of the federal government through the recognition process.[5]

For example, the U.S. Department of Education's recognition standards require accreditors to:

> to maintain criteria or standards in specific areas: student achievement, curricula, faculty, facilities (includes equipment and supplies), fiscal and administrative capacity, student support services, recruiting and admission practices, measures of the degree and objectives of degrees or credential offered, record of student complaints and record of compliance with program responsibilities for student aid as required by the 1965 federal Higher Education Act (Title IV) as amended. (Eaton 2006)

So while there are currently eight regional accreditation agencies in the United States, their activities are circumscribed somewhat by the U.S. Department of Education.[6] This does not make higher education accreditation any less of an emergent order, any more than government attempts to make one language "official" or "correct" make language any less of a spontaneous order.

Conclusion: A Puzzle

Market-oriented economists frequently point to UL and other private forms or regulation as evidence that public regulation is often not necessary (Holcombe 1995; Klein 1998). I certainly have done so. Theory and history both show that free individuals, left to their own devices, will produce a set of institutions that meet their needs. The institutions that solve problems at the lowest cost cannot be known *a priori*, they must be discovered through trial-and-error and the information revelation process of the marketplace.

If the federal government tried to tell Underwriters Laboratory that its standards were wrong and were not in the best interests of consumers and producers, my instincts would be that the federal government was wrong and I suspect that many other economists would feel the same way. Economics teaches us that mistakes are opportunities for profit, either within the rules of the game or by choosing the rules of the game. It is for this reason that I'm puzzled that so few economists find objectionable the Spellings Commission's call for reform of the accreditation process.

---

[5] The benefits of accreditation clearly do not extent just to being eligible for federal funding, however, as is evidenced by the fact that two institutions that take no federal funds—Hillsdale College and Grove City College—are both regionally accredited. Clearly accreditation provides value to both consumers and producers absent government recognition for federal aid purposes, otherwise why would Grove City and Hillsdale expend costly resources to maintain accreditation.
[6] A full list of recognized accrediting agencies is available at http://www2.ed.gov/about/bdscomm/list/hiedfuture/reports/recognized-organizations.pdf

Perhaps my fellow economists are not upset about these things because they view the changes to be good ones. That seems to me, however, to be putting their own preferences in place of consumers and producers. After all, if these changes are so valuable to consumers, why aren't they willing to pay for it (or colleges and universities be willing to provide it)?

References

Bond, E. (1982). "A Direct Test of the 'Lemons' Model: The Market for Used Pickup Trucks." *American Economic Review*72(4): 836-840.

Eaton, J. (2006). *An Overview of U.S. Accreditation*. Council for Higher Education Accreditation.

Finnegan, D. (1991). "Opportunity Knocked: The Origins of Contemporary Comprehensive Colleges and Universities." *New England Resource Center for Higher Education Publications.* Paper 6. Online at: http://scholarworks.umb.edu/nerche_pubs/6

Holcombe, R. (1995). *Public Policy and the Quality of Life: Market Incentives versus Government Planning*. Westport, CT: Greenwood Press.

Klein, D. (1998). "Quality-and-Safety Assurance: How Voluntary Social Processes Remedy Their Own Shortcomings." *The Independent Review* 2(4): 537-555.

Martin, N., and V. Storr (2008). "On Perverse Emergent Orders." *Studies in Emergent Order* 1: 73-91.

Selden, W. (1976). *Accreditation and the Public Interest*. Washington, DC: Council on Postsecondary Accreditation.

U.S. Department of Education. (2006). *A Test of Leadership: Charting the Future of U.S. Higher Education*. A Report of the Commission Appointed by Secretary of Education Margaret Spellings. Online at: http://www2.ed.gov/about/bdscomm/list/hiedfuture/index.html

Wellman, J. (1998). "Recognition of Accreditation Organizations: A Comparison of Policy & Practice of Voluntary Accreditation and The United States Department of Education." Washington, DC: Council for Higher Education Accreditation. Online at: http://www.chea.org/pdf/RecognitionWellman_Jan1998.pdf

Winston, G. (1999). "Subsidies, Hierarchy and Peers: The Awkward Economics of Higher Education." *Journal of Economic Perspectives* 13(1): 13-36.