Higher-Education Accreditation

Market Regulation or Government Regulation?

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In recent public debates regarding higher education, considerable attention has been paid to the general accreditation of higher-education institutions. In 2006, for example, the so-called Spellings Commission issued a report that calls for significant changes in accreditation:

> 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. (U.S. Department of Education 2006, 15)

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The commission also criticizes accreditation for maintaining the status quo. A later finding is that "[a]ccreditation and federal and state regulations, while designed to assure quality in higher education, can sometimes impede innovation" (16).

In this short article, I briefly explore accreditation in higher education and the extent to which it represents market regulation or government regulation. 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, 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 may not be broken.[1]

The Demand for Quality Regulation

The quality of some goods and services is easier to observe than that of other goods and services. For example, it is fairly easy to determine a book's quality while thumbing through it in a bookstore. It is more difficult, however, to ascertain a physician's quality by seeing a picture of her in a white coat or speaking with her for a few moments. If consumers believe that certain qualities are desirable, but they cannot divine these qualities ahead of time, they may be willing to pay for regulation. Conversely, firms in product areas where quality is difficult to ascertain ahead of time may also demand regulation in order to assure consumers that their products are 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* article, "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" (15). It seems obvious that potential students want some form of quality-and-assurance regulation to help ensure that they will receive what they purchase, within some range. In addition, colleges and universities want to convince students and their families that the institution is actually providing the good that students think they are purchasing. If students cannot ascertain whether a college or university is actually providing graduates with the knowledge, skills, and postsecondary experience that they claim to provide, students may not enroll, and colleges and universities may have difficulty in covering expenses.[2]

1. This statement is not a denial that perverse emergent orders may exist (Martin and Storr 2008). Quality-and-assurance regulation, however, clearly appears to be beneficial to the parties involved in these voluntary transactions.

2. This argument is similar to the argument about why asymmetric information does not lead to the unraveling of the used-car market. Because 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.

The Market for Quality Regulation in General

If consumers and producers value quality regulation, we expect that such regulation will be provided without government intervention. One prominent example of voluntary private quality regulation is Underwriters Laboratory (UL). UL is a private 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. The UL logo is ubiquitous in the appliance section of any major retail chain.

Producers of electrical equipment and appliances apparently believe that having the UL sticker on their products has sufficient value that they voluntarily submit to private regulation. Firms are willing to bear this additional expense because customers directly or indirectly value UL's high quality standard. For example, many customers look for the UL label on products they plan to purchase, as I did for the decorative light strings I purchased during the past holiday season. Even individuals who are not aware of the UL certification benefit from it, however, because others in the marketplace notice and care. For example, many businesses require that their purchasing agents purchase only UL-tested equipment, which has the effect of raising standards for all consumers (Holcombe 1995).[3]

The Market for Quality Regulation in Higher Education

If quality regulation is valuable to students and to colleges and universities, we expect to observe that individuals employ valuable resources to create information or institutions that provide information about the quality of higher education without government intervention. Such is largely what happened in higher education in the United States, not only with the regulation of specific occupational schools (such as medical schools and law schools), but also with the general accreditation of colleges and universities. During the last two decades of the nineteenth century, accreditation agencies were formed for four different regions: New England, the middle states, the north-central states, and the southern states (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: "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" (1976, 7). The first list of accredited institutions appeared in 1913, produced by the North Central

3. Markets can provide several different forms of quality assurance; private certification is only one type. Brand names, for example, are another form of quality assurance. For a full list, see Klein 1998.

Association of College and Secondary Schools.[4] Until the 1950s, accreditation for the purpose of standardization and quality control was done without the federal government's involvement and with little other regulation by the states. The idea that accreditation is somehow not part of an emergent order conflicts with the fact that colleges and universities imposed such regulation on themselves.

Increasing Federal Involvement

Although states became 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 until after World War II. Owing to the benefits provided by the GI Bill, a large number of former soldiers sought higher education during the postwar period, and concerns arose that some of the institutions they were attending were of dubious quality. Not until 1952, however, did the federal government begin to recognize accredited institutions in order to ensure that Korean War veterans benefiting from the GI Bill were receiving an education of some minimum quality (Wellman 1998).

Since that time, the federal government has become more involved in accreditation through the recognition process of accreditors. Institutions want to be accredited so they can gain access to 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 federal government's power as expressed through the recognition process.[5]

For example, the U.S. Department of Education's recognition standards require accreditors "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 2009, 7). So although eight regional accreditation agencies operate in the United States, their activities are circumscribed somewhat by the U.S. Department of Education.[6] This restraint does not make higher-education accreditation any less an emergent order,

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

5. The benefits of accreditation clearly are not limited to gaining eligibility for federal funding, however, as evidenced by the fact that two institutions that take no federal funds—Hillsdale College and Grove City College—are regionally accredited.

6. A full list of recognized accrediting agencies is available at http://www2.ed.gov/about/bdscomm/list/hiedfuture/reports/recognized-organizations.pdf.

however, than government attempts to impose a single "official" or "correct" language make language something less than a spontaneous order.

Conclusion: A Puzzle

Market-oriented economists frequently point to UL and other private forms of regulation as evidence that public regulation is often not necessary (Holcombe 1995; Klein 1998). I certainly have done so. Both theory and history show that free individuals left to their own devices will produce 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 marketplace's information-revelation process.

If the federal government were to tell UL that its standards are wrong and not in the best interests of consumers and producers, my instincts would be that the federal government is wrong, and I suspect that many other economists would feel the same way. Economics teaches us that mistakes are opportunities for profit, either by playing within the rules of the game or by choosing the rules of the game. For this reason, I am puzzled that so few economists find objectionable the Spellings Commission's call for reform of the accreditation process. Perhaps my fellow economists are not upset about this matter because they view the proposed changes as good ones. That conclusion seems to me to represent putting their own preferences in place of consumers and producers' preferences. After all, if the proposed changes are so valuable to consumers, why are they unwilling to pay for them?

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