

# The Cartelization of Higher Education Accreditation

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## ABSTRACT

Why does higher education use proxy quality assessment when other industries use direct measurement? Government-enabled cartelization insulates the higher education market from competitive forces, leading higher education to use proxy assessment. Direct quality assessment measures success—student achievement in higher education—while proxy assessment analyzes the factors that produce success, such as faculty qualifications and campus environment. When possible, firms prefer direct metrics because they deliver superior information compared to proxies. In a free market, competition pushes suppliers to adopt direct assessment to avoid losing customers. First, this paper describes the state of higher education accreditation today, by showing that accreditation standards focus on measuring proxies. Second, I explain that accreditors are incentivized to use proxy measurement to protect brand name investments. Accreditors gatekeeper access to government subsidies, allowing them to raise barriers to entry and limit competition. Last, the paper discusses recent efforts to make accreditation more competitive and possible future policies.

**Keywords:** Quality Assessment, Higher Education, Accreditation, Monopoly Power

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## 1.0 Introduction

American higher education is facing new challenges. Trust in colleges and universities is at a low, with thirty percent of Americans reporting they have “very little/none at all” and forty percent maintaining “some” confidence (Honeycutt 2024). Higher education costs tens of thousands of dollars. College education promises students the opportunity to refine their skills for the marketplace. Before prospective students enroll at an institution they must be convinced that higher education will benefit them. The accreditation system delivers quality assurance in higher education. However, accreditation focuses on measuring proxies instead of direct outcomes when direct assessment would provide better information for students. Why does accreditation persist in using proxy measurement? Government-enabled cartelization incentivizes accreditation to use proxy measurement to protect brand-name investments.

This paper analyzes higher education accreditation through the lens of measurement cost economics. My theory of proxy and direct measurement and knowledge of brand-name investments build on the work of Yoram Barzel (Barzel 1982). The major accreditation agencies post their standards online. I examined each of them to see if they focused on direct or proxy measurement (MSCHE 2024, NECHE 2021, HLC 2022, SACSOC 2018, WASCUC, and NWCCU 2020)

This paper evaluates the present state of accreditation. First, it presents a theory of direct and proxy measurement. Second, the paper examines the seven institutional accreditors' most recent standards and classifies them as using direct measurement or proxy assessment. Third, the paper explains how current accreditation standards are based on brand-name investments. It concludes

by looking at recent accreditation reforms and future policies that can maximize benefits to institutions and students.

## 2. The Measurement Market

In a complex economy, there is a market for quality assessment. Before an exchange can occur, the buyer and seller must agree on the price. Part of a good's price depends on its quality. Better quality goods are more valuable. Buyers will have to pay higher prices to persuade producers to part with their goods. However, sellers must communicate information about the quality of their goods to consumers. There will be competition among sellers to guarantee the value of their products. Producer's demand for quality assurance will create a market for quality assessment.

There are two approaches to quality assessment: proxy and direct evaluation. Direct measurement assesses how well a good fulfills its purpose. For example, taste is a direct measurement of an apple's quality (Barzel 1982, 42). Proxies measure the factors that go into producing a successful good (Barzel 1982, 42). A proxy measurement for apples could be the quality of soil or fertilizer. All other things equal, direct measurement is preferred to proxies by both customers and suppliers. Customers want certainty that the goods they are purchasing will work. The more information buyers have on the outputs of a good, the more certainty they have about their purchase. Sellers have an interest in employing direct metrics too. Producers compete to provide reliable information to customers. If one firm can provide more certainty about the quality of its product, then in a free market consumers will buy from the high-quality provider.

Proxy measurement is not as attractive as direct. First, proxies do not provide the same level of certainty. Direct measurement communicates information about the qualities of a good.

Proxies, on the other hand, can only give information about the inputs in production. Second, proxy measurement can be gamed by opportunistic suppliers. Imagine a chemist invents a chemical that can improve the beauty of an apple, which is a proxy measurement for taste (Barzel 1983, 43). Farmers will use the new chemical to improve the look of their apples without affecting taste. Buyers of apples will be duped into thinking the apples are more tasty than in reality. Direct and proxy measurement are substitutes for each other, direct metrics are superior to proxies. In the context of higher education direct assessment refers to measurements of student achievement. While proxy quality assessment will measure all the factors that go into producing qualified graduates.

If direct measurement is superior to proxies then why do some industries like higher education still use proxy measurement? Sometimes, proxies are preferable to direct measurement because direct assessment can be prohibitively costly. Going back to apples, the cost of measuring taste would be too costly for direct measurement, because testing the taste of apples-eating them, destroys the product. The continued use of proxy measurement is an implication of the Alchian-Allen effect. In some cases, the relative cost of using direct measurement makes proxy metrics more attractive. After all, some form of quality assessment is better than none. However, the relative costs for direct measurement to proxies can change. When the relative costs decrease suppliers will choose the superior substitute- direct measurement (Alchian and Allen 2018, 128). Some factors that can lower the relative cost of direct measurement include technology and government policy. When the relative costs are low enough suppliers will switch to using direct measurement. Some industries are moving toward direct measurement. For

example, the labor market for middle and low-skill jobs is shifting from measuring qualifications using college degrees to skill-based hiring (Fuller et al. 2022, 5).

### 3.0 Proxy Measurement in Accreditation

Accreditation is the quality assessment system of higher education. Originally, accreditation was a way for colleges to standardize admissions requirements and minimum acceptable standards for legitimate colleges (Alstete 2007, 13). Notably, accreditation did not involve government intervention. Accreditation agencies were voluntary groups and institutions dedicated to preserving quality. However, accreditation changed in 1965 when the Higher Education Act became law. Institutions had to earn accreditation before receiving government funding (Hall 2012, 236). Today, accreditors are gatekeepers for federal funding and define who is a legitimate institution (Alstete 2007, 18). Accreditation defines the parameters of the higher education market.

Many different kinds of accreditors exist. However, this paper focuses on regional accreditation agencies. Regional accreditors are the most important organizations in higher education quality assessment because they assess entire institutions and guard access to federal funding (Eaton 2015, 2). Accreditation agencies are not bureaucracies owned by the US government. Rather each accreditor is an association of colleges who monitor each other's quality (Alstete 2007, 35). Each region of the country has its own accreditation agency. The analysis of this paper draws from the standards of the six major regional accreditors.

The standards for each of the regional accreditors are available online. I analyzed each document and classified each criterion based on whether it was a direct or proxy measurement. Three accreditors: the Middle States Commission on Higher Education (MSCHE), the Higher

Learning Commission (HLC), and the Southern Association of Colleges and Schools Commission on Colleges (SACSOC), publish guides that provide detailed information on evidence requirements. I classified the criteria of these three agencies through their evidence expectations. If half or more examples of acceptable evidence for a standard used direct measurement then I classified the standard as direct. If less than half did, I labeled the criteria as a proxy. Here is an example of a proxy measurement: “honesty and truthfulness in public relations announcements, advertisements, recruiting, and admissions materials and practices, as well as internal communications ” (MSCHE 2024). Next is an example of direct measurement: “the institution collects, analyzes, and acts on student outcomes data including retention and graduation rates” (WASC 2023). The other three accreditors: the New England for Higher Education (NECHE), WASC Senior Colleges and Universities Commission (WASC), and the Northwestern Commission on Colleges and Universities (NWCCU), do not publish similar guides. Instead, I classified their standards based on whether or not the criteria regulated a direct outcome or a proxy. Below are the findings for each accreditation agency.

Accreditor	Direct Criteria	Proxy Criteria	Percentage Direct
MSCHE	8	33	19.51%
HLC	4	14	22.22%
SACSOC	5	66	7.04%
NECHE	23	159	12.64%
WASC	8	33	19.51%
NWCCU	4	44	8.33%

All the regional accreditors focus on assessing proxies. The trend toward direct measurement is not playing out in higher education. The accreditor with the highest proportion of direct measurement is the HLC with 20.2% of their criteria. SACSOC utilizes direct measurement for only 7% of its criteria. Why do accreditors insist on using proxy measurement?

#### 4.0 Colleges and Brand Names

Higher education institutions are not incentivized to switch to direct measurement. In the past, colleges and universities made significant brand-name investments. Many universities built institutional prestige which functions like brands. Prestige in the world of higher education is a proxy measure for quality. Name recognition does not measure students' academic achievement. Instead, prestige signals an institution's ability to train valuable and skilled workers. Similarly, brands signal product quality without directly measuring the traits of the good. Brand analysis can be applied to college behavior.

Brand investments recognize an informal contract. Some goods like apples are simple to measure. While complex goods are difficult to measure since they have many inputs. Higher education has many different inputs including campus environment, faculty qualifications, and student work ethic. Direct measurement costs can be prohibitively costly for complex goods (Barzel 1982, 35). Brand names are a solution to costly measurement. Businesses invest in developing their reputation. Reputation is a promise that the seller's goods are made to a specific quality level.

Brands are informal contracts because they set up self-enforcing relationships between customers and sellers. Firms promise goods of a reliable quality to buyers. If a producer tries to lower the quality of their goods, then the producer's reputation will be harmed (Barzel 1982, 37).

The investments a firm makes in its brand vanishes when its reputation is hurt. Businesses with low reputations are likely to lose customers to more trustworthy competitors. Prestige investments are supposed to keep colleges acting in good faith. If an institution fails to provide the promised level of education students will transfer to other colleges and families will stop enrolling their children. However, other forces can hurt a college's prestige and disharmonize incentives.

Direct quality measurement is a threat to prestige investments. Measuring outputs negates the need for brand-name investments. Buyers do not need to rely on a brand's reputation, rather they can look at the performance of the good itself. Direct measurement in higher education would benefit new institutions more than established ones. New colleges could compete with established universities without making brand investments. The brand investments of older colleges would be put at risk. Additionally, direct assessment lowers barriers to entry into higher education. New schools would not need to expend resources to build a reputation so established colleges would face increased competition. Because direct assessment would sink college prestige investments, existing institutions have an incentive to prevent a switch to direct assessment.

In a free market, schools would be forced to adopt direct measurement. Competition would see newer institutions using direct measurement to communicate quality. Old colleges would either have to provide direct measurement or be forced out of the market. Accreditation agencies limit competition in higher education. They raise barriers to entry by requiring candidates to maintain pre-existing functional institutions (MSCHE 2024). Government subsidies and protected loans can only go to already accredited institutions. Established



universities have the advantage of attracting students who use government funds. At an unaccredited school, no subsidies can be used and a student's education is not considered 'legitimate.' Accreditors have the power to stop new institutions that would use direct measurement and protect prestige investments by using proxy assessment.

Accreditation works against students. Direct measurement can provide information that would help families choose the best schools to send students to. As long as accreditors use proxy measurement students will be deprived of vital information.

## 5.0 Policy Reforms

Future policy reforms should make accreditation more transparent and competitive. Opening accreditation to market pressures will create a better higher education environment for both schools and students.

1. Accreditation agencies should make all self-studies publicly available. The self-study is a report an institution prepares showing how it meets an accreditor's standards (Alstete 2007, 77). Currently, most self-studies are kept confidential, opening them to the public will give students a better idea of educational quality.
2. End DEI requirements. Multiple accreditors including the MSCHE include DEI requirements in their accreditor (MSCHE 2023). DEI standards focus on measuring ideological proxies in higher education. These criteria do not provide useful information and politicize accreditation.
3. Require accreditors to publish direct measurement statistics. Recently, direct statistics have been published by organizations like the Department of Education. Enabling economists to develop measures of education quality like Rate of Return (Gillian 2022,

4). One accreditor WASC already publishes direct measurements on its website. Making all accreditors follow suit would allow families to be more informed in the college decision-making process,

## 6.0 Conclusion

This paper explains why accreditation relies on proxy measurement instead of moving to direct assessment. Market forces push firms to use direct measurement, hence markets such as middle-skilled labor are using output metrics. However, higher education operates under a non-market set of incentives. Accreditation agencies can act as cartels to limit competition and protect prestige investments by using proxy measurement. Most institutions do not have an incentive to use direct measurement.

Public trust in higher education is falling. The goal of accreditation is to establish trust between institutions and students. As Americans continue to have less confidence in colleges and universities fewer families will send their children to higher education. In the long run, a lack of trust in higher education will harm colleges and universities. Lower trust creates an opportunity for existing colleges. While accreditors limit competition, institutions still compete to attract a finite amount of students. Any institution that can use direct assessment will have an advantage over its competition. Market forces will resolve the current lack of trust in higher education and move institutions toward direct measurement.

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