

Comments to the National Advisory Committee on Institutional Quality and Integrity on
the impact of institutional control on student outcomes

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May 9, 2018

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On average, a college degree pays for itself many times over throughout an individual's lifetime (Webber, 2014). Even taking into account the possibility that a student will not graduate from college, the expected payoff to a degree is so great that it is in the typical student's best financial interest to attempt to earn a degree (Webber, 2016). How then do these statements conform with the sobering statistics on student debt we have become so familiar with? The answer of course is that not everyone receives the average college premium. In some cases, this is due to student characteristics (college preparation, innate ability) or choices (major). In others, it is due to factors specific to the institution students attend.

There are thus two rationales for the government to provide oversight and accountability when it comes to higher education: protecting taxpayer funds, and protecting the time and monetary investment of students. Given that student loan debt cannot be forgiven through bankruptcy (except in extreme circumstances) this second rationale is critical, as poor outcomes can financially cripple an individual for years or decades.

I have consistently advocated for accountability reforms which would apply to all institutions which receive Title IV funding (Webber, 2017), as I believe this is the most fair and efficient way to design such a system. However, when it comes to oversight issues, such as those being discussed by this committee, I believe special attention should be paid to for-profit institutions, a sector which is responsible for a disproportionate amount of the student debt problems currently facing this country. In what follows, I discuss the theoretical arguments and empirical evidence for why the for-profit sector should be regarded with extra scrutiny in order to protect the investments of both students and taxpayers.

As an economist, a large part of my job is to study incentives. It is important to be clear that no school or sector should be categorized as "good" or "bad" in some moral sense. Every

school is comprised of people who do their jobs by responding to the incentives in front of them. From the perspective of the American public, we can think of “good” incentives as those which induce university administrators to act in a way which benefits students and taxpayers, and “bad” incentives as those which enrich themselves while harming students and/or taxpayers. Every institution in every sector faces decisions with both good and bad incentives.

From a theoretical perspective, the additional profit-motives present at for-profit colleges offer ambiguous predictions about whether they will provide a better education value for students. On the one hand, there is greater incentive to seek out so-called “non-traditional” students who may be underserved by the historically slow-to-change non-profit sector. The bureaucracy at many schools is sometimes difficult to navigate, particularly for first-generation college students. Things are made even more difficult when students need to work during their time in school or have unmet child care needs. From this perspective, the additional profit-based incentives faced by for-profit institutions can persuade administrators to seek out new ways of accommodating these students, leading to greater access to higher education and an improvement in social welfare (Rosenbaum, Person, and Del-Amien, 2006). Moreover, for-profits may be more agile and willing to embrace new technologies than the non-profit sector (Deming, Goldin, Katz and Yuchtman, 2015; Gilpin, Stoddard, and Saunders, 2015).

There is of course the potential for negative outcomes arising from profit-based incentives as well. All students, particularly first-generation students, lack perfect information about the relative costs and benefits associated with college attendance. If students have correct beliefs, at least on average, of whether a given school will provide them with labor market outcomes that justify the tuition they are paying then there would be little need for the government to intervene in the higher education market. Schools that fail to provide benefits

commensurate with their costs would immediately fall out of the market due to competitive market forces. This is of course not the world we live in.

Further complicating matters is that from a school's financial perspective, it is in their interest to admit a student so long as the cost of educating the student is less than the price of tuition, regardless of whether it is actually beneficial to the student.

Moreover, a purely profit-oriented school is concerned with finding the highest price students are willing to pay, while also providing the fewest services. This is where the profit motive can be especially damaging to students. Schools faced with delivering profits to investors/owners are incentivized to charge higher prices and provide lower quality education than would be socially desirable.

It thus becomes an empirical question as to which impact is a bigger factor: possible improvements in innovation/access versus an increased incentive to provide minimum quality at maximum price. Higher education is not unique in these incentives. Your local cable television provider faces exactly the same type of decisions in their market. The difference here is that the government is not providing loans for individuals to pay for cable, and choosing the wrong provider does not have the potential to financially hamstring you for years to come. Moreover, the quality/value of most goods and services (e.g. food at a restaurant) are much more easily judged by consumers than higher education, further increasing a school's ability to provide lower quality while not being punished by the market for doing so.

Looking at the differences in outcomes between the for-profit and non-profit sectors is a useful place to start. The most important metric, in my opinion, is the repayment rate for student loans. This measures the proportion of borrowers who are making some progress repaying the

principal balance (i.e. they are paying at least enough so that their loan balance is not growing due to accrued interest). A five-year repayment rate measures the progress of borrowers five years after they left school and entered the repayment phase of their loan.

At four-year non-profits, this repayment rate is 67.5%, while at four-year for-profits, it is 35.1%. It is absolutely true that this is not an apples-to-apples comparison, as the average student at a four-year non-profit has very different characteristics than their fellow for-profit student (Deming, Goldin, and Katz 2012). Still, the gap is striking, implying that roughly two thirds of students who attend a four-year for-profit have made no progress (and likely are falling further behind) on their loan five years after leaving school.

A better, but still not perfect, comparison can be made between two-year non-profit and for-profit students. The average community college has a five-year repayment rate of 47.4%, compared to only 34.4% among two-year for-profit schools.² Further, far fewer community college students find themselves needing to borrow, making the rate of non-repayment rate for community college entrants far lower than at a for-profit college.

There are even more drastic differences in the educational costs faced by students across sectors. At four-year schools, the typical tuition and fees paid by for-profit versus public non-profit students is \$18,600 to \$8,700. At two-year institutions, an even larger gap of \$17,000 to \$4,100 exists between for-profits and non-profits.³

Current research I am conducting indicates that even after controlling for a number of differences in student characteristics (e.g. age, race, Pell status, family background) there still

² Author's calculations from the most recent College Scorecard data.

³ Author's calculations from the most recent Integrated Postsecondary Education Data System (IPEDS) data.

exist statistically significant differences in default and repayment rates across institutional sectors. In other words, there appears to be a negative causal effect of attending a for-profit university on future loan repayment outcomes

A number of high quality studies have examined the financial returns to for-profit and non-profit schools, attempting to isolate the causal effect of institutional control by comparing outcomes of students with similar characteristics. This literature consistently finds a lower return at for-profit institutions (Deming, Goldin, and Katz, 2012; Lang and Weinstein, 2013; Cellini and Chaudhary, 2014; Jepsen, Mueser, and Jeon, 2015).

In my view, the most compelling evidence on the causal impact of for-profit schools comes from Stephanie Cellini and Nicholas Turner⁴ in their recent work which utilizes administrative data to estimate the earnings and employment impacts of certificate programs at for-profit versus community colleges. Prior studies of the returns to for-profit education, while strong, often focused on either small samples or very specific populations which were not necessarily generalizable, Cellini and Thurner (Forthcoming) does not suffer from this criticism as they have access to large-scale data from the Treasury Department. The authors find students who attend for-profit institutions are face a 1.5 percentage point lower probability of being employed, and those who are able to find work earn 11 percent less than similar students who attended community colleges. When you consider the typical debt burdens taken on by students, the contrast becomes even more stark. The authors conclude that the average community college student is made better off by their educational investment, while the average for-profit student is made slightly worse off by their decision.

⁴ Cellini and Turner (Forthcoming)

In two separate "audit studies", which send otherwise-identical resumes to employers with certain characteristics experimentally randomized, Darolia et. al (2015) and Deming et. al (2016) both examine call-back rates for individuals with a for-profit versus nonselective non-profit degree. Both find negative results among for-profits, although those from Darolia et. al (2015) are not statistically significant. For example, Deming et. al (2016) finds that business graduates with a for-profit degree were 22 percent less likely to receive a call-back than an identical non-profit graduate.

It is important to remember that these results only apply to the average student, some fare better while others fare worse. Not all for-profits provide bad outcomes for students, just as not all non-profits produce good outcomes. However, the fact that there are large average causal differences in student outcomes argues strongly in favor of additional oversight of for-profits. There is significant empirical evidence that attending a for-profit school is more financially risky to both the student and taxpayer, and thus greater scrutiny is justified.

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