A Conversation with Stephanie Riegg Cellini

For-Profit Higher Education Attracts Students, Scrutiny

Stephanie Riegg Cellini recently published a first-of-its-kind analysis of for-profit two-year colleges, "For-Profit Higher Education: An Assessment of Costs and Benefits." Cellini is associate professor of public policy and economics at George Washington University in Washington, D.C.

Q: What are for-profit colleges and why have they attracted federal regulators' attention?

For-profit colleges are an incredibly diverse group of postsecondary institutions organized as profit-seeking businesses. They do not enjoy the tax benefits of traditional private, nonprofit institutions (such as Harvard and Stanford universities) nor the public funding of state colleges and universities (such as the University of California, Berkeley, and the University of Michigan), although many receive substantial public support through federal, state and veteran student-aid programs. For-profit institutions offer everything from vocational certificates and nondegree programs to graduate degrees. Some are large national chains (the University of Phoenix, ITT Technical Institute), while others are small local schools offering specialized coursework (Puttin' on the Tips cosmetology school), and many exist purely online (Capella University). The for-profit sector grew dramatically in the last decade to 11 percent of total postsecondary enrollment, a substantial increase from 4 percent in 2000.

For-profits are attracting the attention of regulators because federal student aid—such as the Pell Grant Program and student loans—is a substantial source of revenue for these institutions, and it is unclear that students are acquiring the skills needed to find a job and repay their debt. On average, aid-eligible for-profits receive 74 percent of their revenue from federal aid programs. Put another way, the for-profits, while enrolling 11 percent of postsecondary students, receive about 25 percent of federal student-aid disbursements and have much higher default rates than other sectors.

In the first three years after graduation, about 25 percent of for-profit students default on student loans, compared with 8 percent of students in nonprofits and 11 percent in public institutions. Additionally, recent government reviews found instances of low graduation rates, questionable recruiting practices and indications of federal student-aid fraud at several large for-profit colleges, raising questions about whether these patterns are widespread.

Q: What do these for-profit schools offer that traditional two-year colleges do not?

For-profit colleges have been around for a long time, but their numbers and enrollments have spiked in recent years. Their 11 percent enrollment share amounts to more than 2 million students. Availability of financial aid and the loosening of restrictions on aid to online institutions in the 1990s may have helped fuel this growth, but trends in college-going among working students and the growth of the Internet undoubtedly fueled the expansion as well.

Online institutions and chain schools with multiple branch campuses, either in one state or across the nation, account for most of for-profits' growth during the last decade, according to a new paper in the *Journal of Economic Perspectives* [Winter 2012] by David J. Deming, Claudia Goldin and Lawrence F. Katz. Within these institutions, the greatest expansion has been in bachelor's and graduate degree programs. Overall, though, for-profits still award a relatively small share of all bachelor's degrees (5 percent) relative to certificates (42 percent) and associate's degrees (18 percent).

Q: Who chooses for-profit colleges and why?

Relative to other sectors, for-profit colleges generally serve more women, minorities, older students and lower-income individuals. Some of this is a function of the types of programs they offer—for example, lower-income students may be more likely to enroll in certificate programs, women may be more likely to enroll in nursing programs, and older students may be more likely to enroll in evening or weekend programs.

Understanding why students choose for-profits is a much more difficult question. It could be that community colleges are oversubscribed, especially in certain programs, so students wanting to get training quickly may have few other options. A second reason is that the evening class schedules or online coursework may better fit working students' needs, but public and nonprofit colleges seem to be offering similar evening and online courses, so this reason is perhaps becoming less central. A third reason is that for-profits may have better student services, such as on-site child care. Fourth, for-profits may offer some degrees or certificates in cutting-edge areas (in information technology, for example) or specialized fields (culinary arts) that are not typically offered in other sectors, although my research suggests that these programs are rare.

Finally, I think an important, but underexplored, reason is that students lack information about their full set of college options. They may have no idea that the school they are attending is for-profit, nor

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that similar programs (for much lower tuition) may be offered at their local community college. The advertising and recruiting budgets of for-profits certainly outstrip those of the public sector. Compelling for-profit advertising—unlike what most public schools use—may persuade students with little knowledge of the postsecondary education market.

Q: How do the costs of a two-year for-profit college education compare with those of a public community college?

A for-profit college education costs more than a community college education, but taxpayers bear less of the cost burden and students much more. My calculations suggest that a for-profit education costs taxpayers and students about $59,000 per year for a full-time student. By comparison, a similar community college education costs about $44,000 per year. On the other hand, taxpayers pay more for community colleges than for-profits: $11,400 versus $7,600, including direct subsidies, grant aid and the cost of defaults on student debt. But these figures pale in comparison to the cost to students. For-profit students incur about $51,600 in costs (or 87 percent of the total) in the form of foregone earnings, tuition and fees, and interest on student loan debt; community college students incur about $32,200 (or 73 percent of the total).

Q: Are there greater gains associated with a for-profit education? What did you conclude from your cost–benefit analysis?

There has been surprisingly little research on the private and social benefits to a for-profit education. In my cost–benefit analysis [*National Tax Journal*, March 2012], I calculate what the private and social returns to education would have to be to fully cover the cost of attendance. Private returns consist primarily of earnings gained by the individual, while social returns could include productivity spillovers, reduced crime, increased civic participation or more direct benefits to society from college facilities or taxes paid by for-profits.

I find that private returns would need to be fairly sizable—8.5 percent per year of education for for-profit students and 5.3 percent for community college students—to offset their respective private costs. For society as a whole, returns would have to be 9.8 percent to for-profit colleges and 7.2 percent for community colleges.

Q: Your research appears to conclude that for-profit colleges are expensive and the extra cost may not be worth it. Is that the case?

Every student's situation is different, so it's impossible to say what the right or wrong decision is for any particular individual. But, based on my research, it seems that for at least some students, the extra cost may not be worth it since many students could find suitable programs in local community colleges at a much lower cost.

My guess is that students see ads on TV, call the number on the screen and may be talked into enrolling in a for-profit institution with the promise of a high salary and abundant financial aid. Given the very limited advertising budgets of public institutions, students may be unaware that public institutions exist, or they may not know that they offer vocational certificates or nighttime course schedules.

Recent regulations take an important step in the right direction by requiring for-profits (and certain other institutions) to provide information on graduation rates, average salaries of graduates, average debt and loan repayment rates. This information is absolutely essential for students to weigh their personal costs and potential benefits of their education.

Q: To what extent do federally backed student loan programs contribute to the growth of for-profit schools?

Federal student aid—both grants and loans—is undoubtedly a lifeline for many for-profit colleges. In a previous paper, I found that the number of openings at for-profits is correlated with the generosity of the Pell Grant Program, but I can't prove a causal relationship.

Perhaps more revealing is my paper with Claudia Goldin of Harvard University [National Bureau of Economic Research, 2012]. We first document the large number of for-profit institutions operating with absolutely no access to federal student-aid programs (although they may be eligible for state aid and veteran's benefits); we estimate that there are about 4,500 of these institutions in the U.S., serving roughly 670,000 students. We then compare the tuition of two-year degree and certificate programs in these institutions to observationally similar programs in institutions that participate in federal aid programs. We find that tuition is, on average, 75 percent higher in for-profit programs that are eligible for federal aid.

Some have taken our study to mean that federal student aid needs to be scaled back across the board, but I see it differently. Rather, I think we need to be more careful about which institutions and programs should be eligible for federal aid. We need to maintain access to postsecondary education for low-income students, but we also have an obligation to ensure this education is of sufficient quality that students may benefit from attending. At the very least, we need to provide students with the information they need to make accurate assessments of the benefits they can expect from attendance so they can more accurately conduct their own cost–benefit analysis.