



# **For-Profit Colleges: What Next?**

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Theory



Distinctions

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# FOR-PROFIT COLLEGES

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Earnings Gains



Evaluation



Policy

# Should Returns be Equal across Colleges?

Many market distortions:

- Government regulations and subsidies
- Imperfect information and lock-in

Expect varied **income**, **fees** and **returns** across sectors

# For-Profit Colleges are Distinctive

## Organizational structure

- Low pay faculty; more IT capital; more supports

## Financial constraints

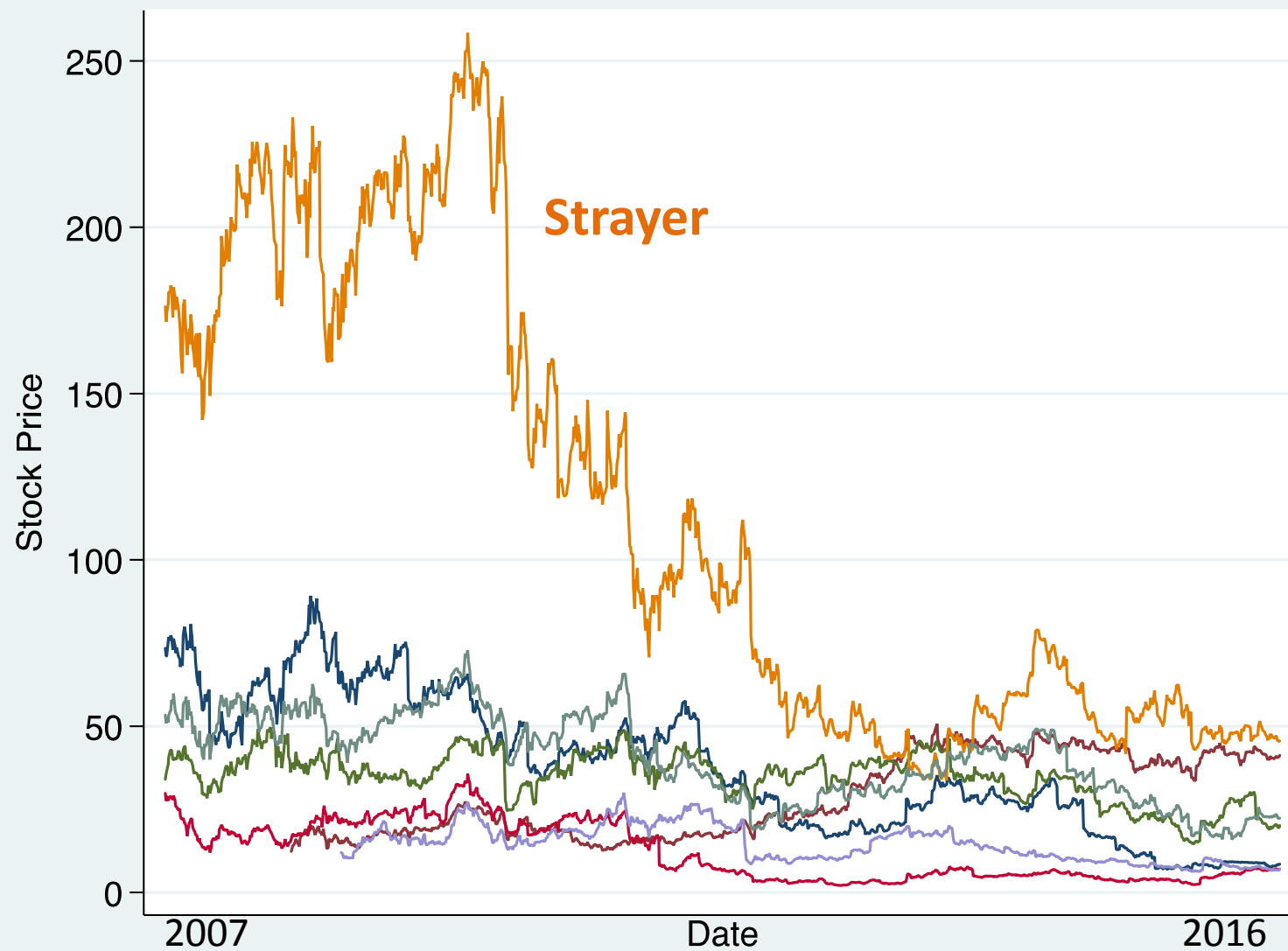
- Zero donations; heavy loan funding

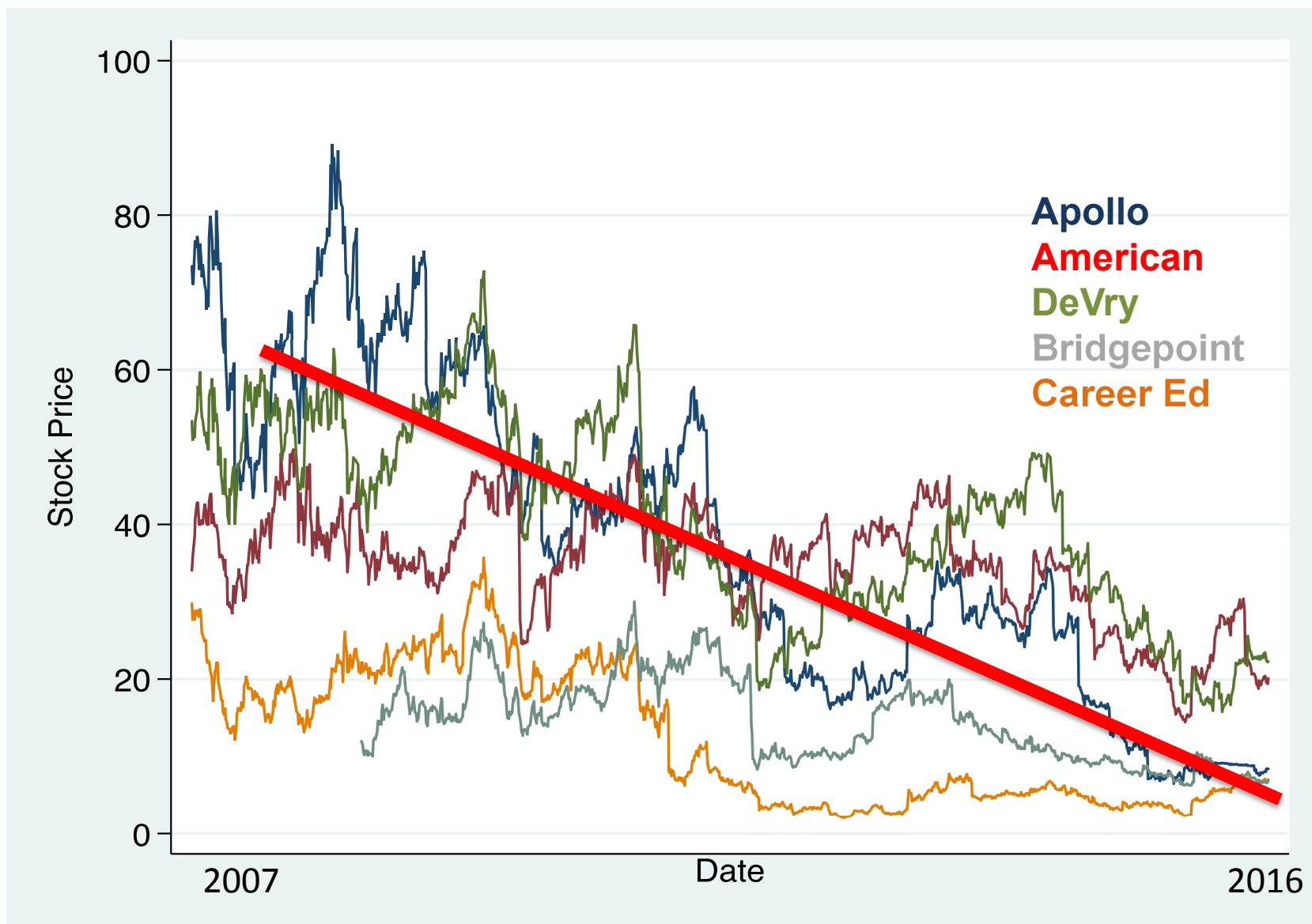
# Market Capitalization: +\$10bn

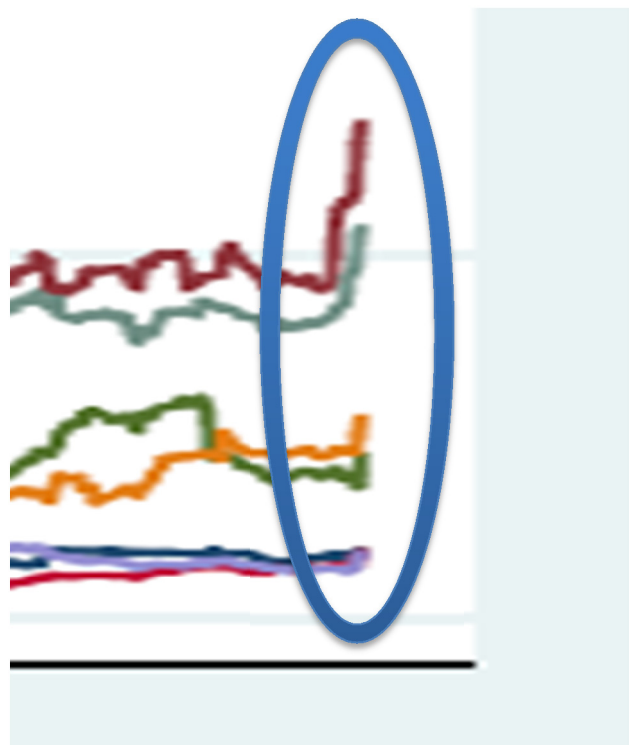
	Market Capital	Employees
Grand Canyon Education	\$2.65B	3,650
DeVry	\$1.77B	10,062
Apollo	\$1.05B	19,000
Strayer	\$759M	1,401
Career Education	\$640M	6,687
Bridgepoint Education	\$434M	190
American Public Education	\$377M	2,210
Lincoln Education	\$51M	2,398
Education Management	\$1M	10,800
<del>ITT Technical</del>	<del>\$0</del>	<del>4,100</del>
<del>Corinthian</del>	<del>\$0</del>	<del>10,100</del>



**Cordon Bleu  
US school  
closes next  
month**

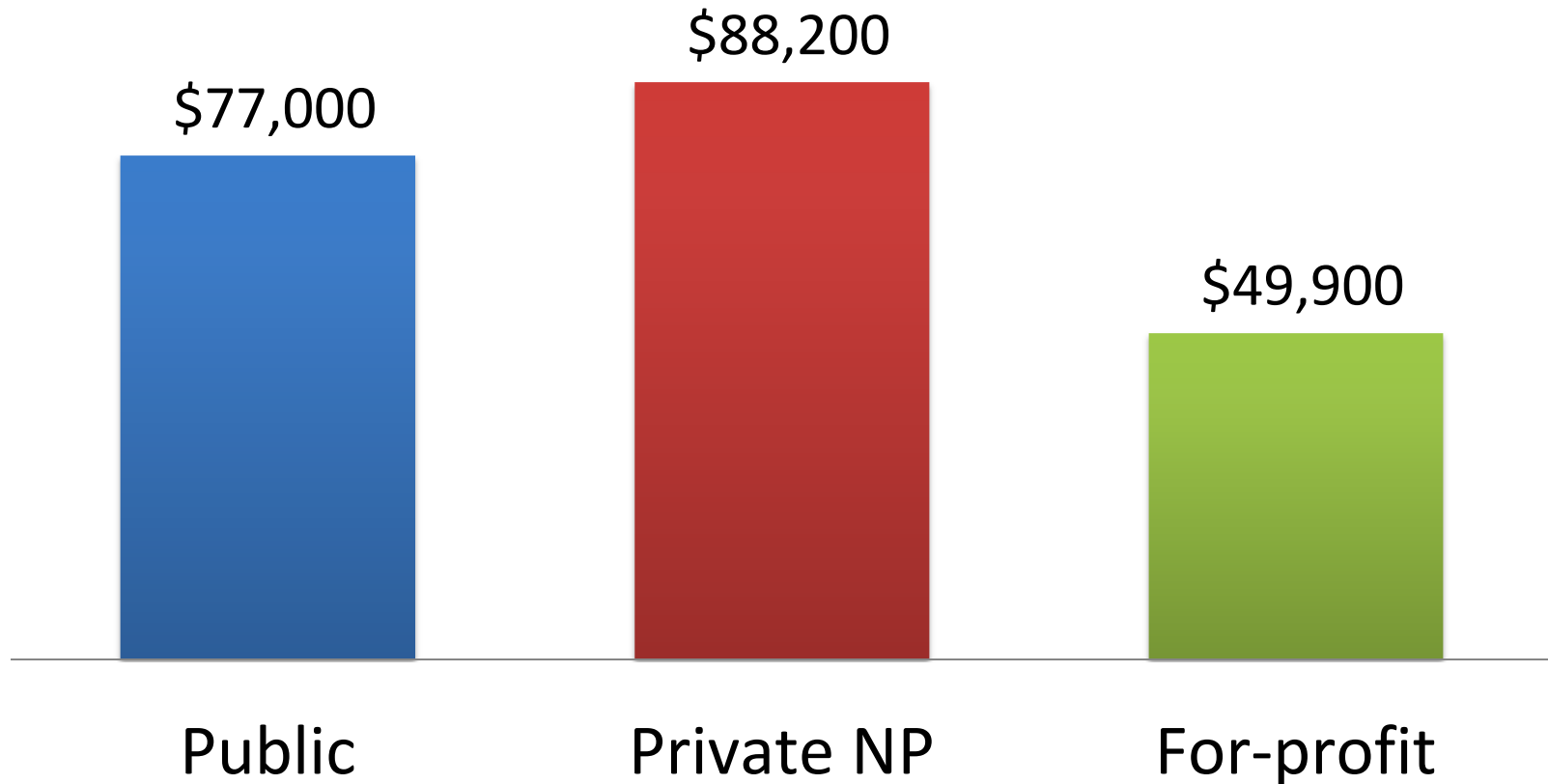






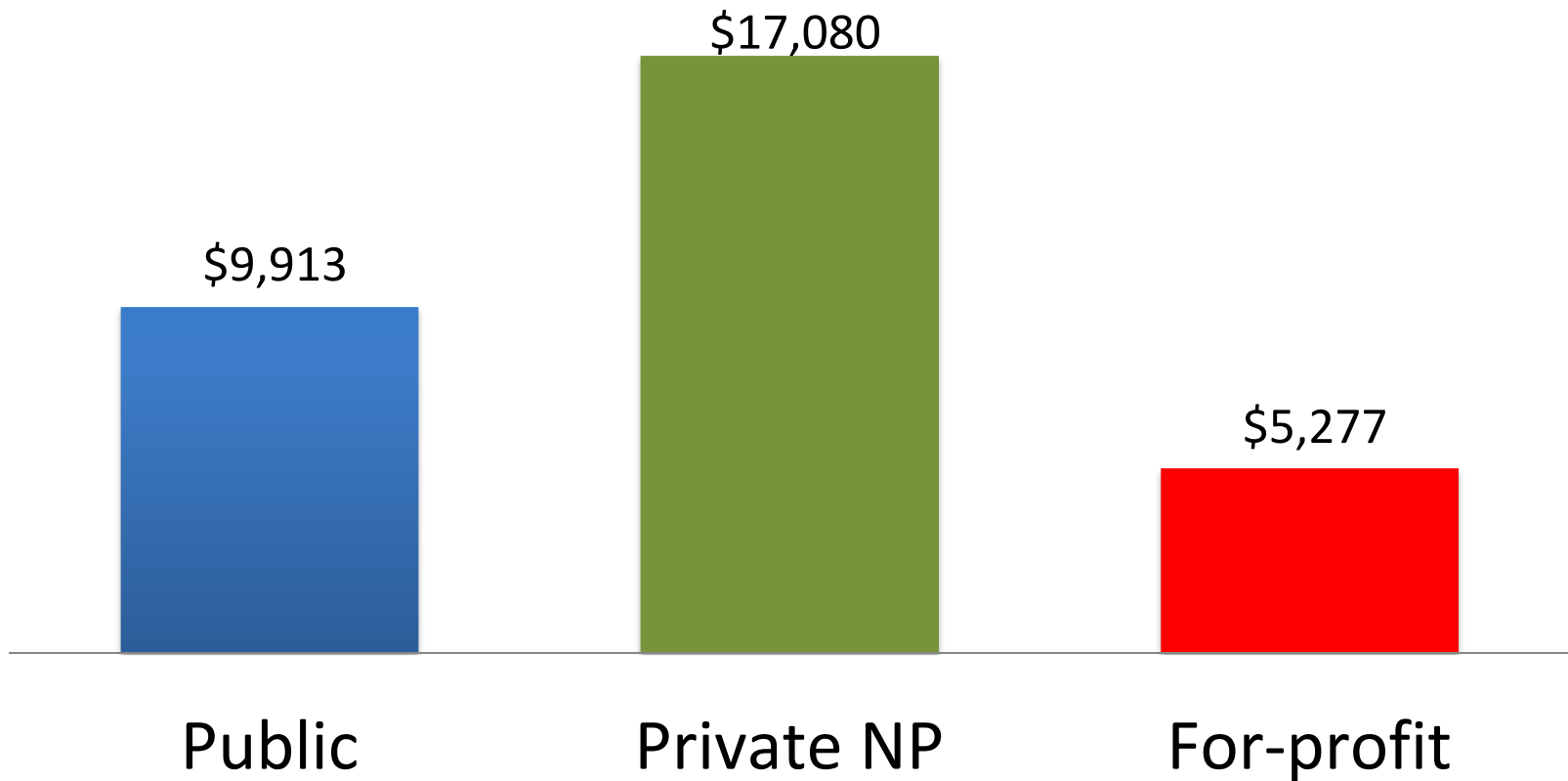
**November 9 2016**  
**New President**

# For-profit Colleges Pay Full-time Instructional Faculty 35% less



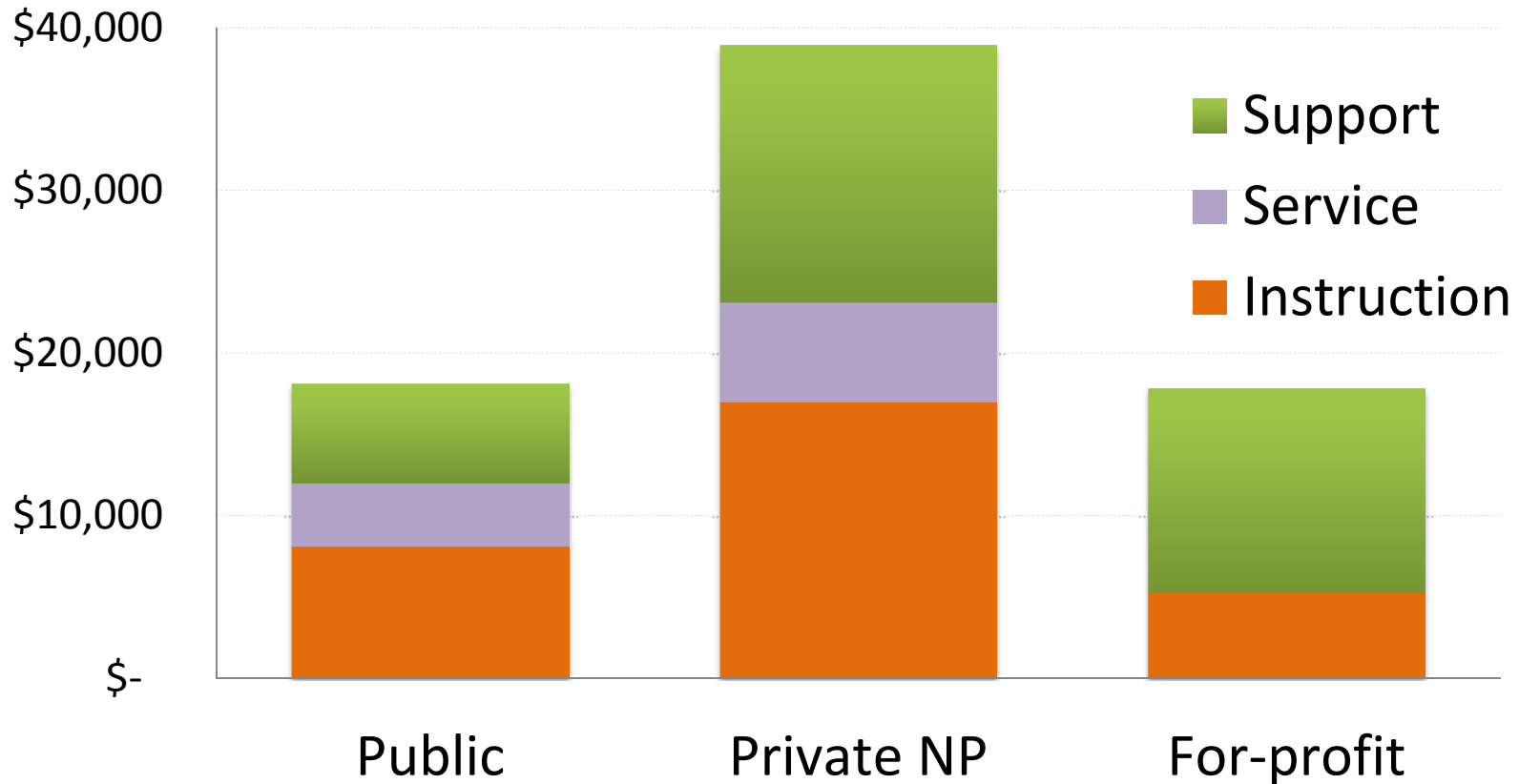
NCES (2015, Table 316.2)

# For-profit Colleges Spend on Instruction per FTE 47% less



NCES (2015, Tables 334.10, 334.30, 334.50)

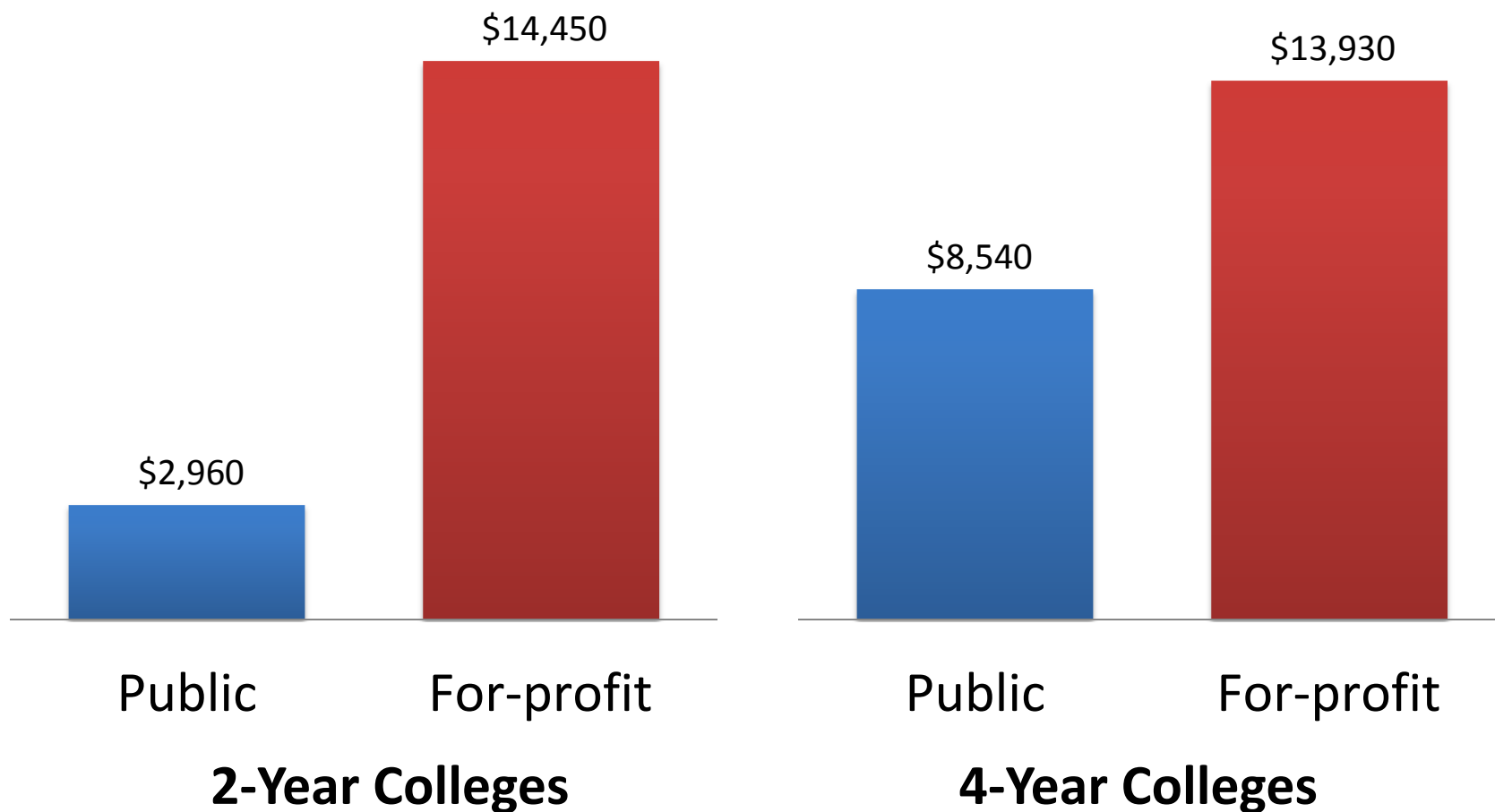
# Total Spending is Similar



Support is student services, academic support, and institutional support (NCES, 2015, Tables 334.10, 334.30, and 334.50)

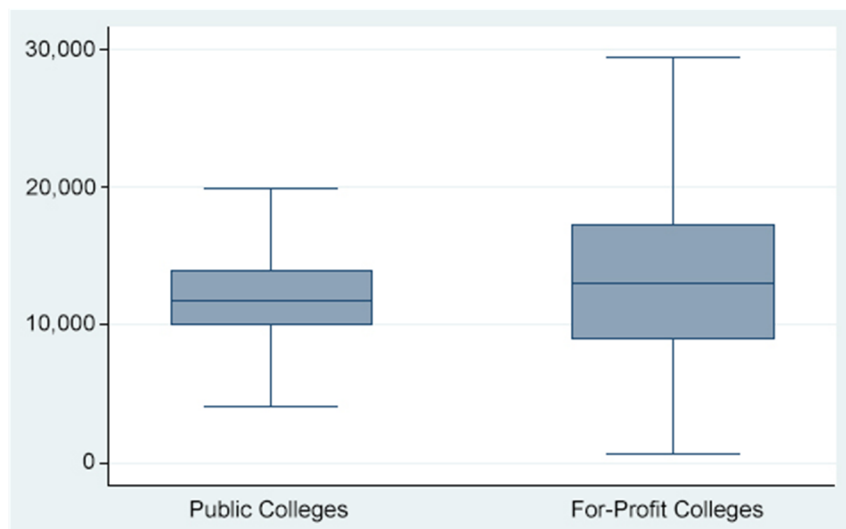
# Tuition/fees per FTE

## Much Higher at for-profit Colleges

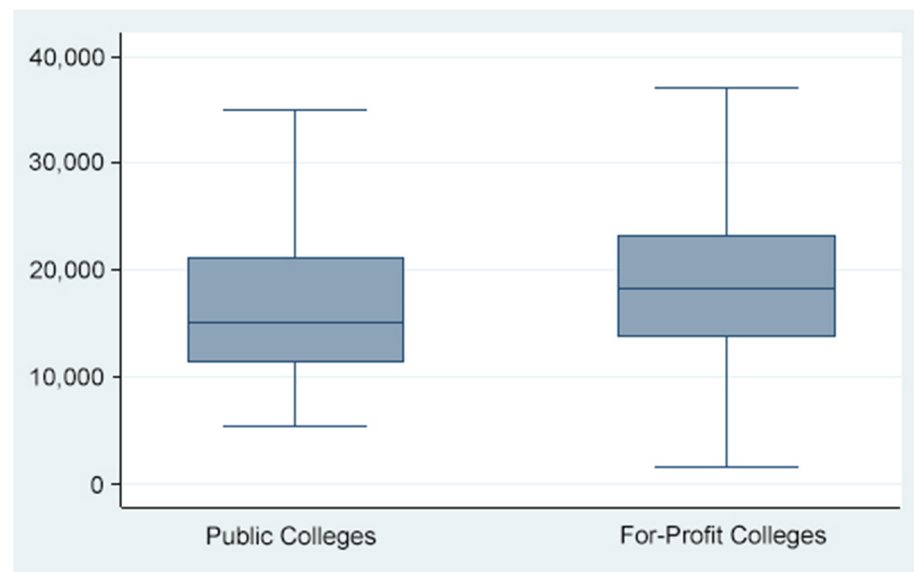


In-state tuition/fees, weighted by FTE; 2014 dollars. NCES (2015, Table 330.10).

# Total Costs per FTE Higher and Wider at For-Profits



**2-year Colleges**



**4-year Colleges**

# Online Learning Reduces Cost per Student Modestly

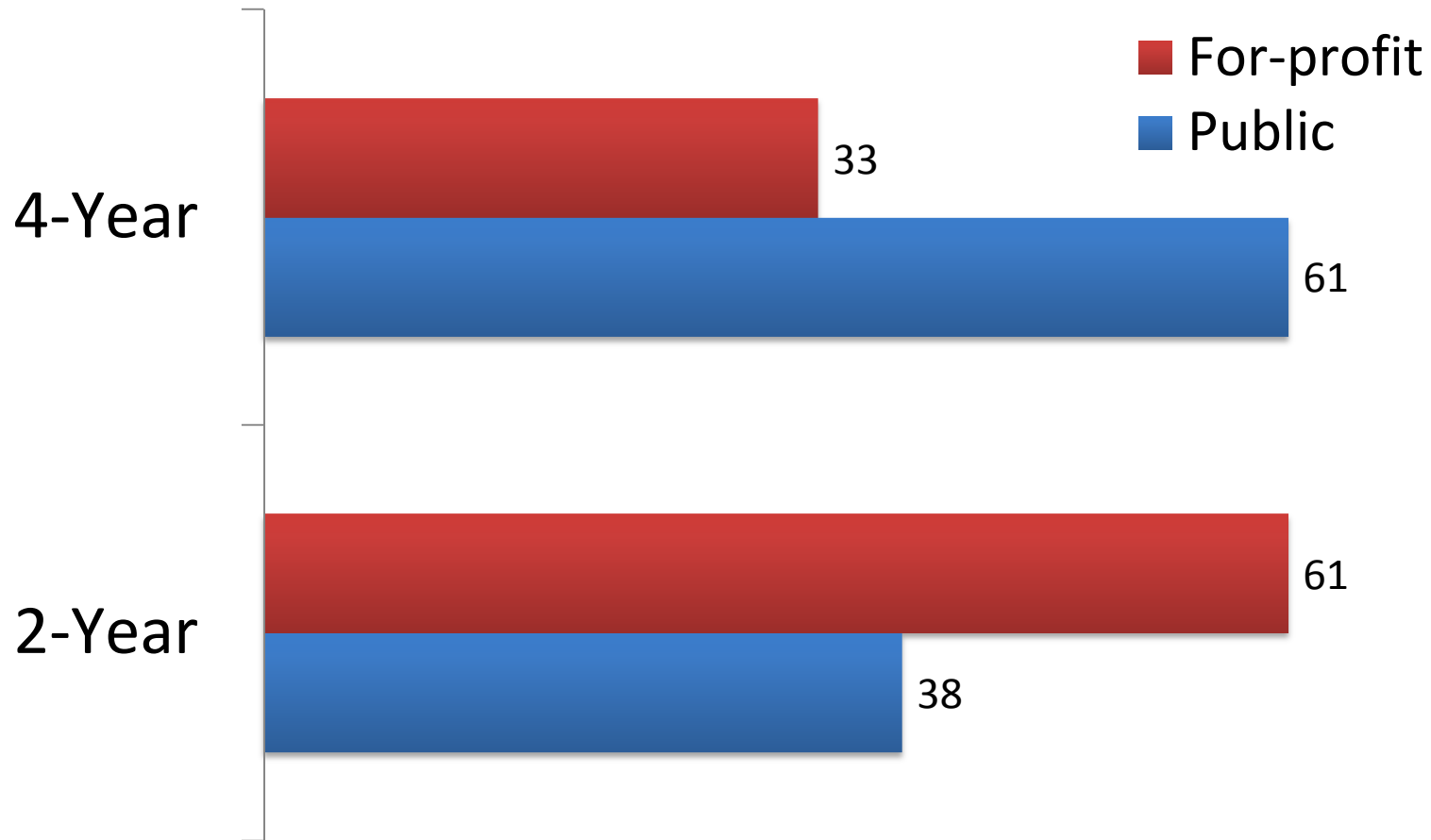
Students taking all courses online:

Public 2-year/4-year colleges	8%
Independent for-profits	9%
Chain for-profits	<b>54%</b>

Deming et al. (2016):

All-online    **↑** 10 percent (1 s.d.)  
Prices    **↓** 1.5%

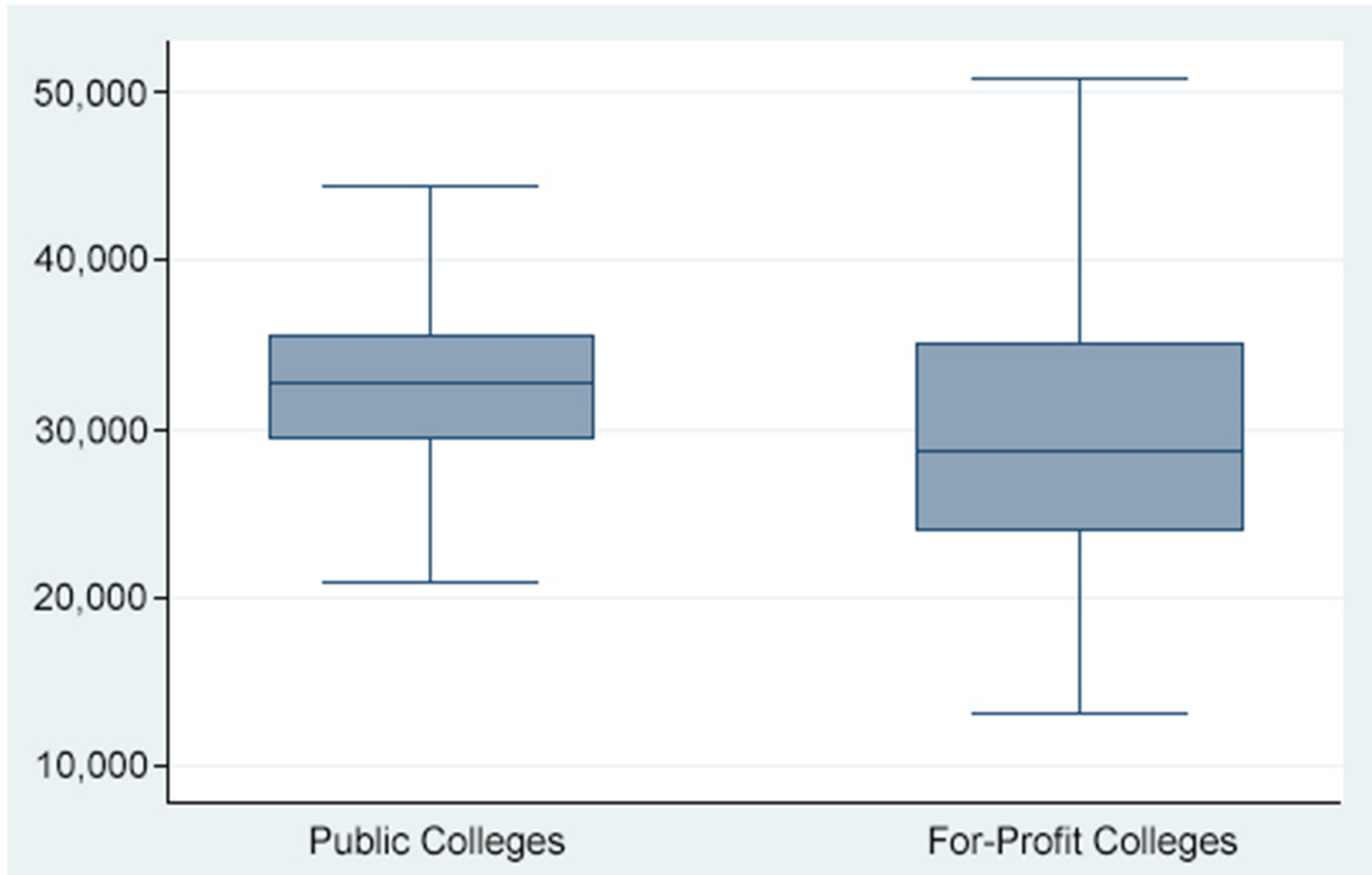
# For-profit Colleges have Very Different Completion Rates



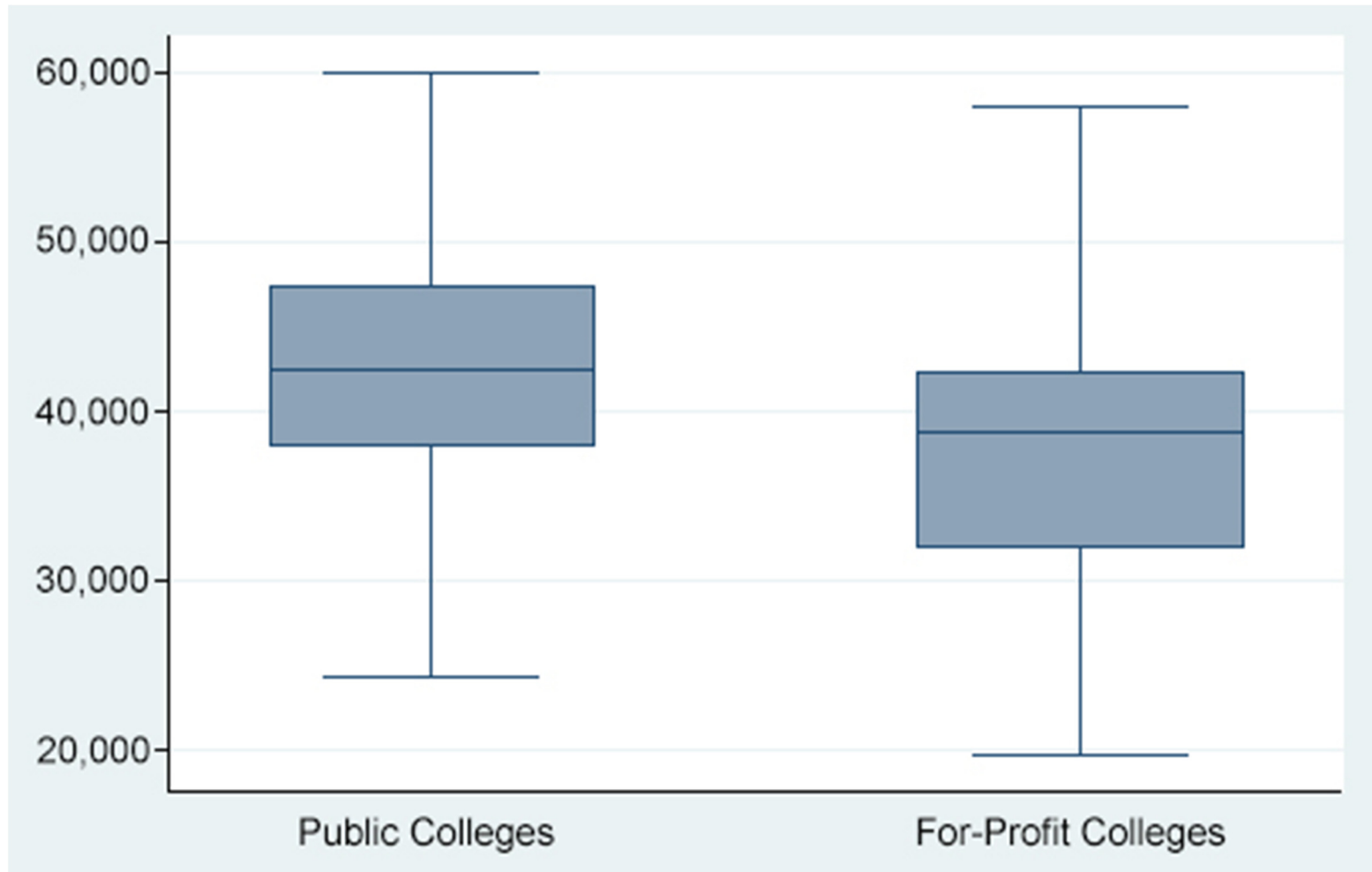
NSC (2014)

Relative to public college students, <b>for-profit students earnings:</b>	Study Data Source
<b>Lower</b> by ~\$2,000	Deming et al. (2012) BPS
<b>Lower</b> for certificate holders by ~\$2,500	Cellini & Turner (2016) IRS records
<b>Lower</b> for certificate-holders (ns) <b>Lower</b> for AA-holders (ns)	Lang & Weinstein (2013) BPS
<b>Lower</b> (ns)	Liu & Belfield (2014a) ELS
<b>Lower</b> (ns) <b>Lower</b> for non-completers	Cellini & Chaudhary (2014) NLSY97
<b>Lower</b> for CC students who transfer to for-profits versus to other colleges	Liu & Belfield (2014b) CC system records

# Annual Earnings Ten Years After First Enrollment: 2-Year Colleges



# Annual Earnings Ten Years After First Enrollment: 4-Year Colleges



Relative to other colleges, for-profit students have <b>callbacks for job interviews:</b>	Study (using experimental resume-audits)
<b>Lower</b> among BA holders by 22% No different for AA/certificate holders	Deming et al. (2012)
No different	Darolia et al. (2014)

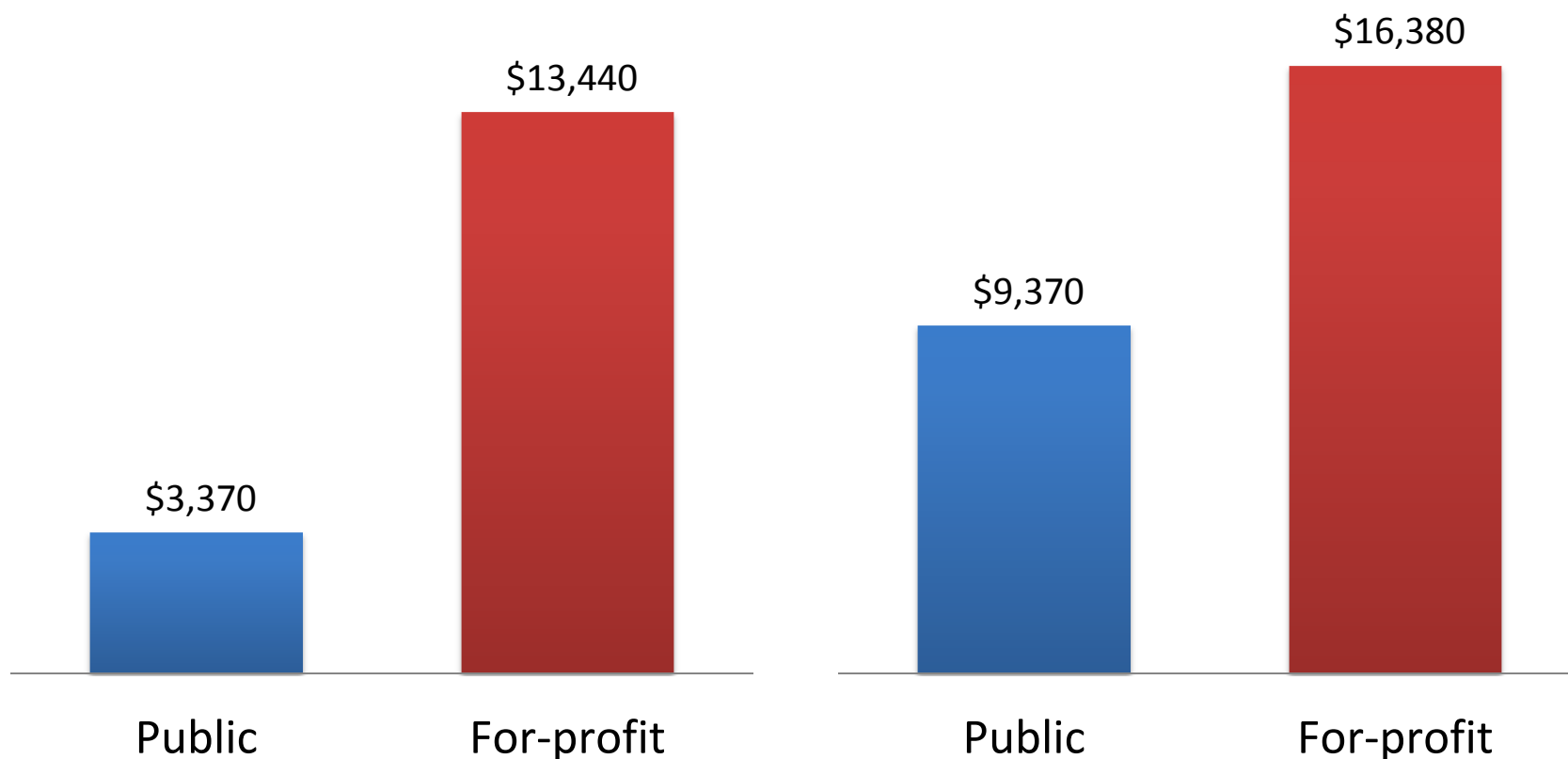
### Other evidence:

- Earnings penalty for for-profit students returning to labor market (Cellini & Turner, 2016; Jepsen et al., 2016)
- Lower value-added from for-profit colleges (Hoxby, 2016)

# Loan Balances per FTE Much Higher at For-profit Colleges

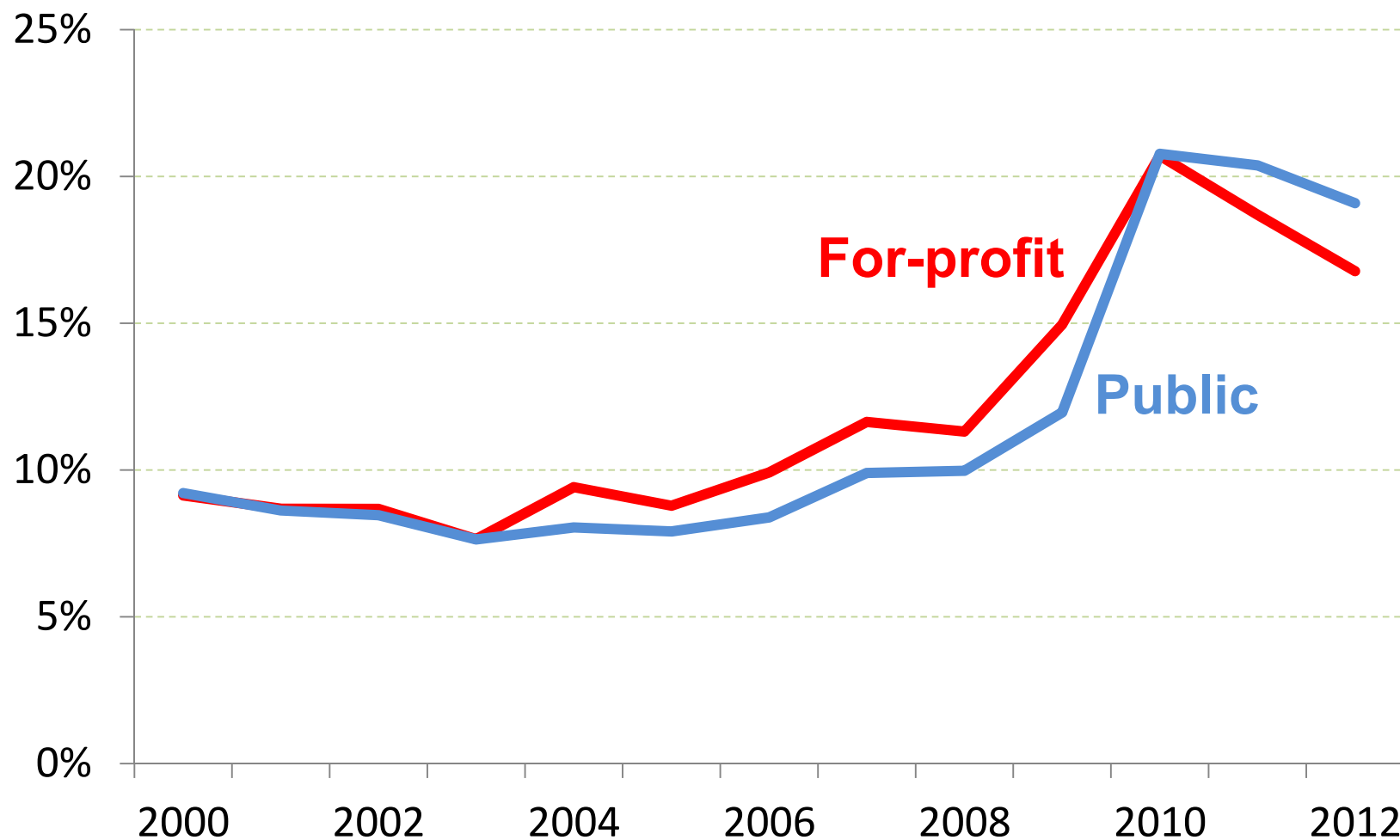
## Two-Year Colleges

## Four-Year Colleges



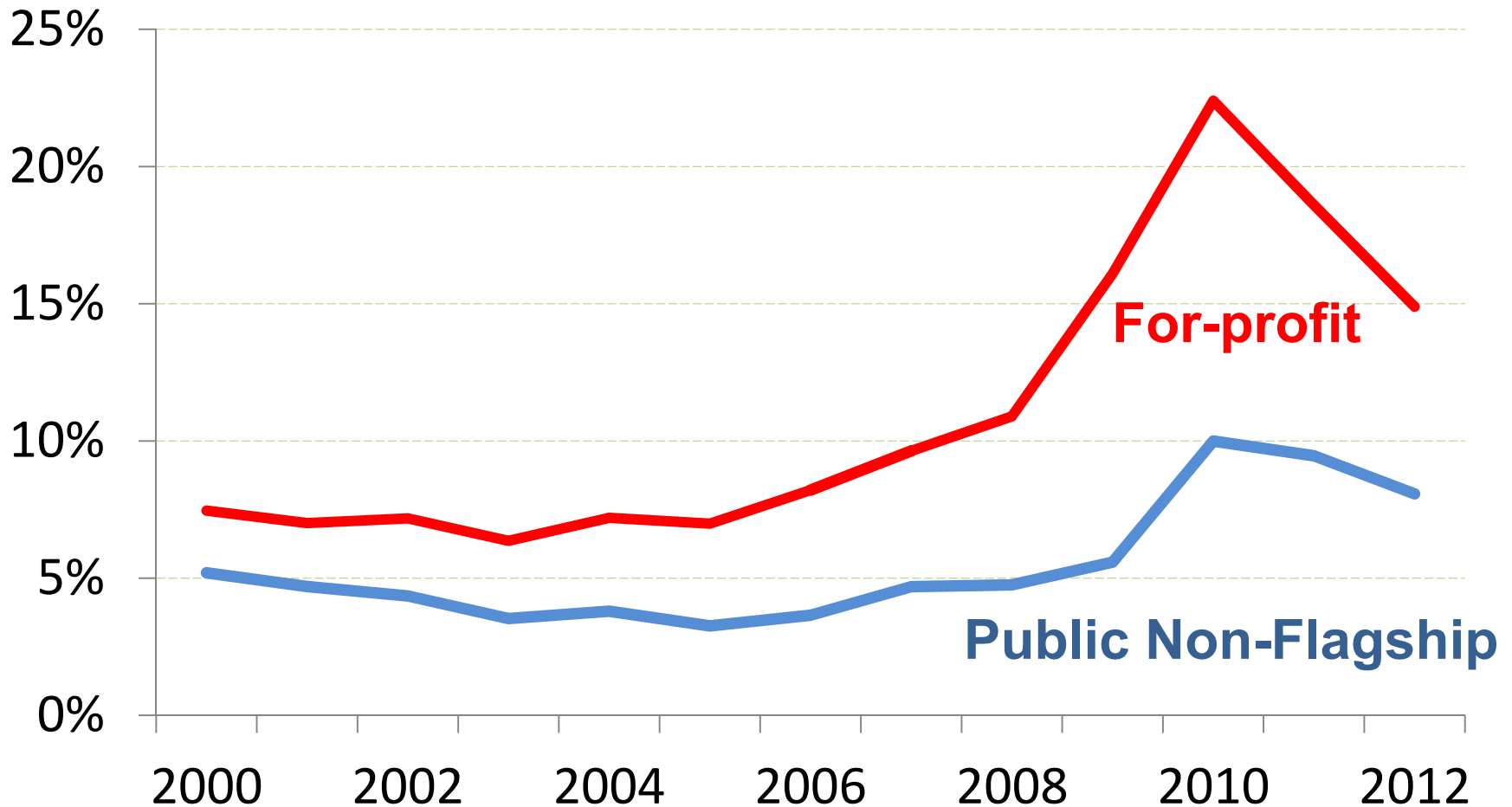
Adjusted for college-level characteristics. *Source:* Belfield (2013, Table 6).

# Default Rates: 2-year Colleges



Chakrabarti et al. (2016)

# Default Rates: 4-year Colleges



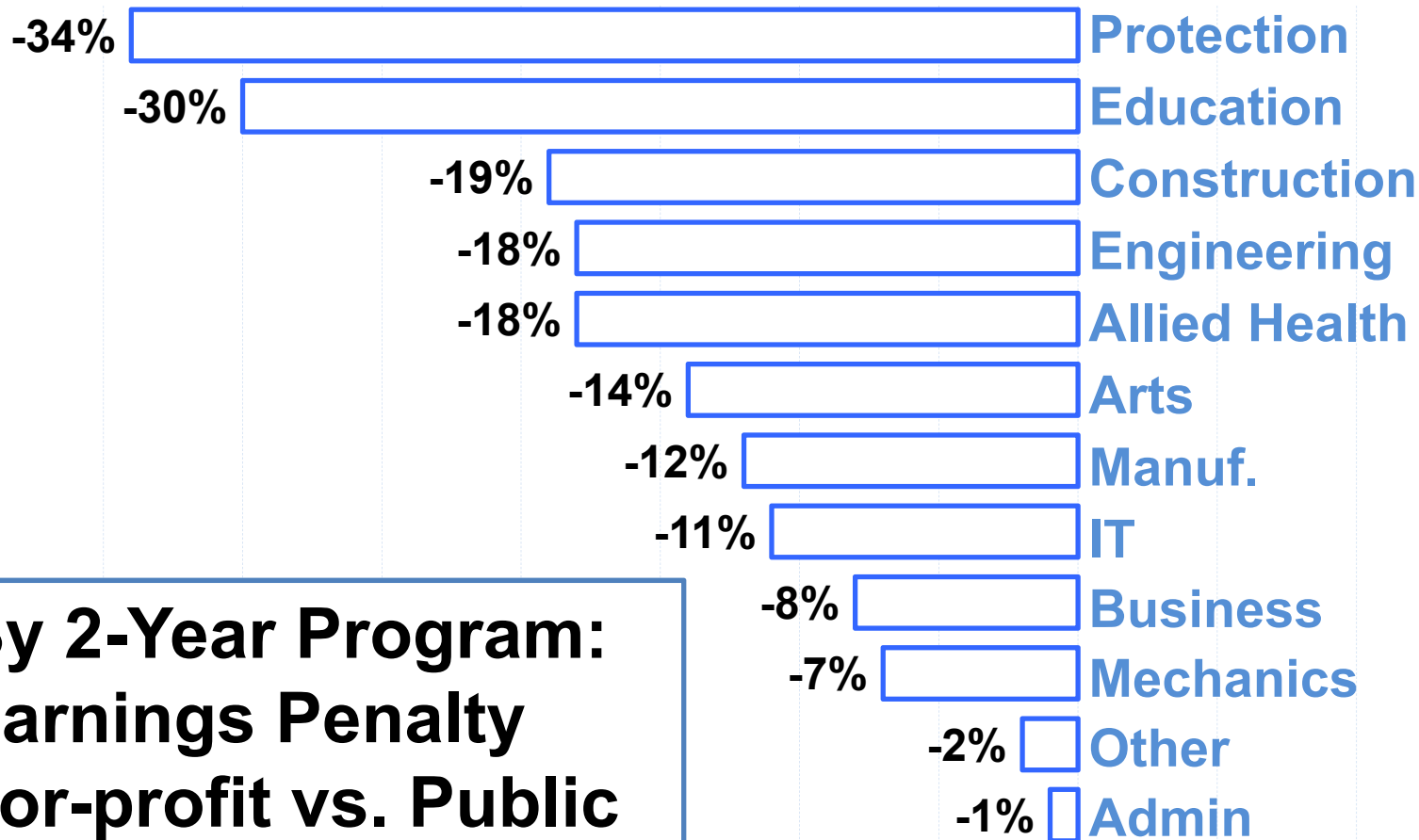
Chakrabarti et al. (2016)

# Not Just “A Few Bad Apples”

Corinthian Colleges	~80,000 students	Closed 4/15
ITT Technical Institute	~40,000 students	Closed 9/16

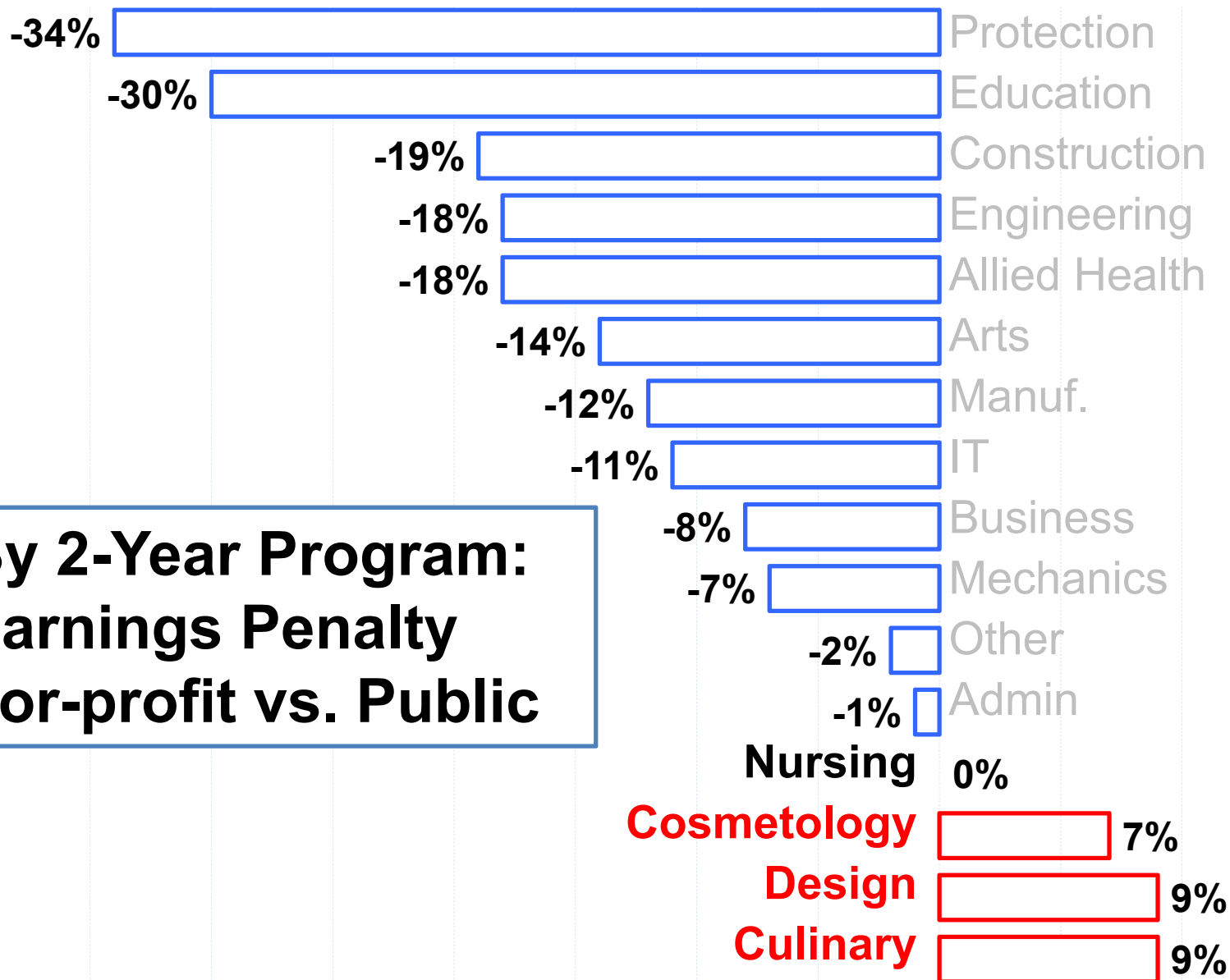
Tuition/fees, default, earnings similar to rest of for-profit sector

- Corinthian: mid-fees, low earnings
- ITT Tech: very high-fees, high earnings

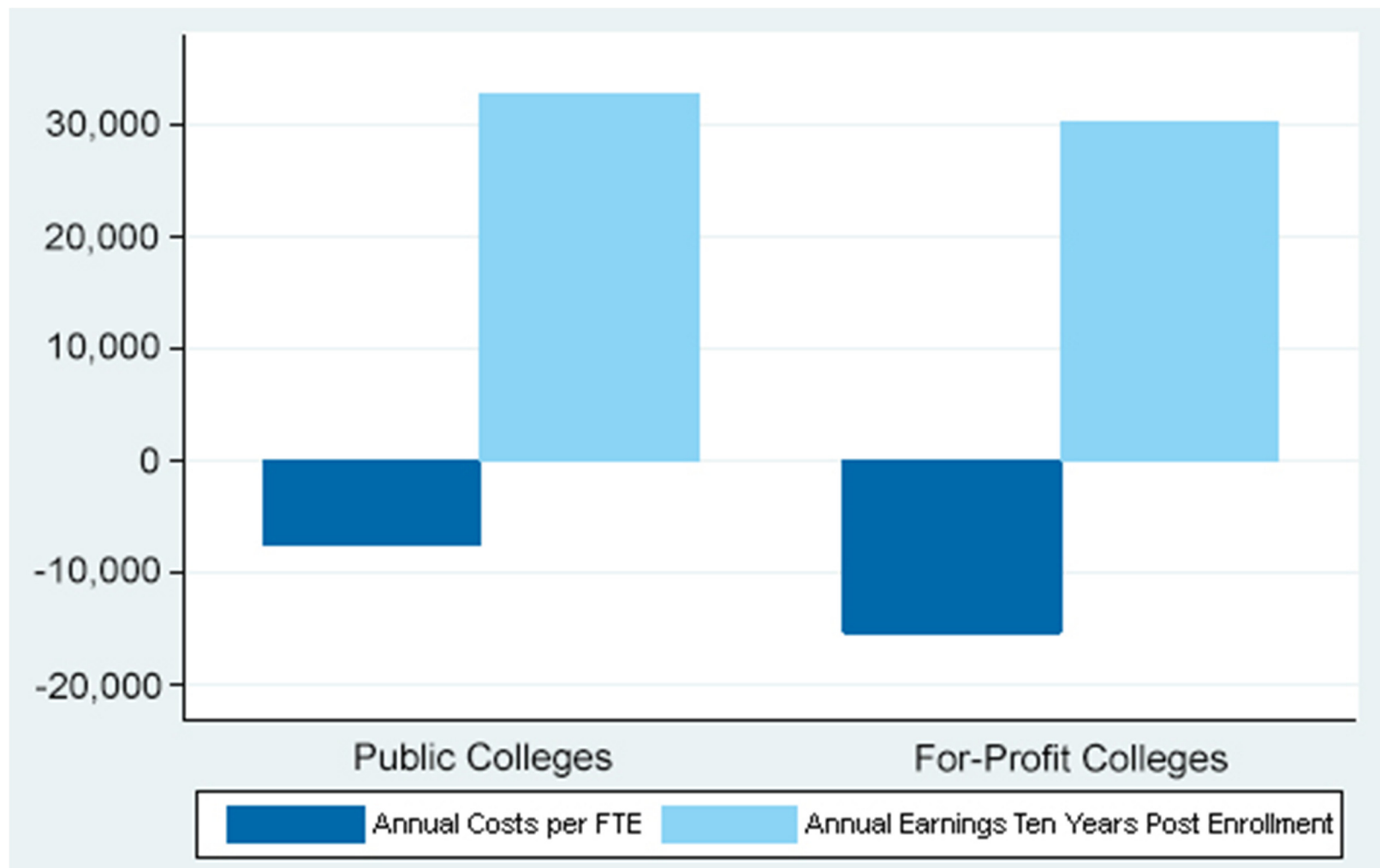


**By 2-Year Program:  
Earnings Penalty  
For-profit vs. Public**

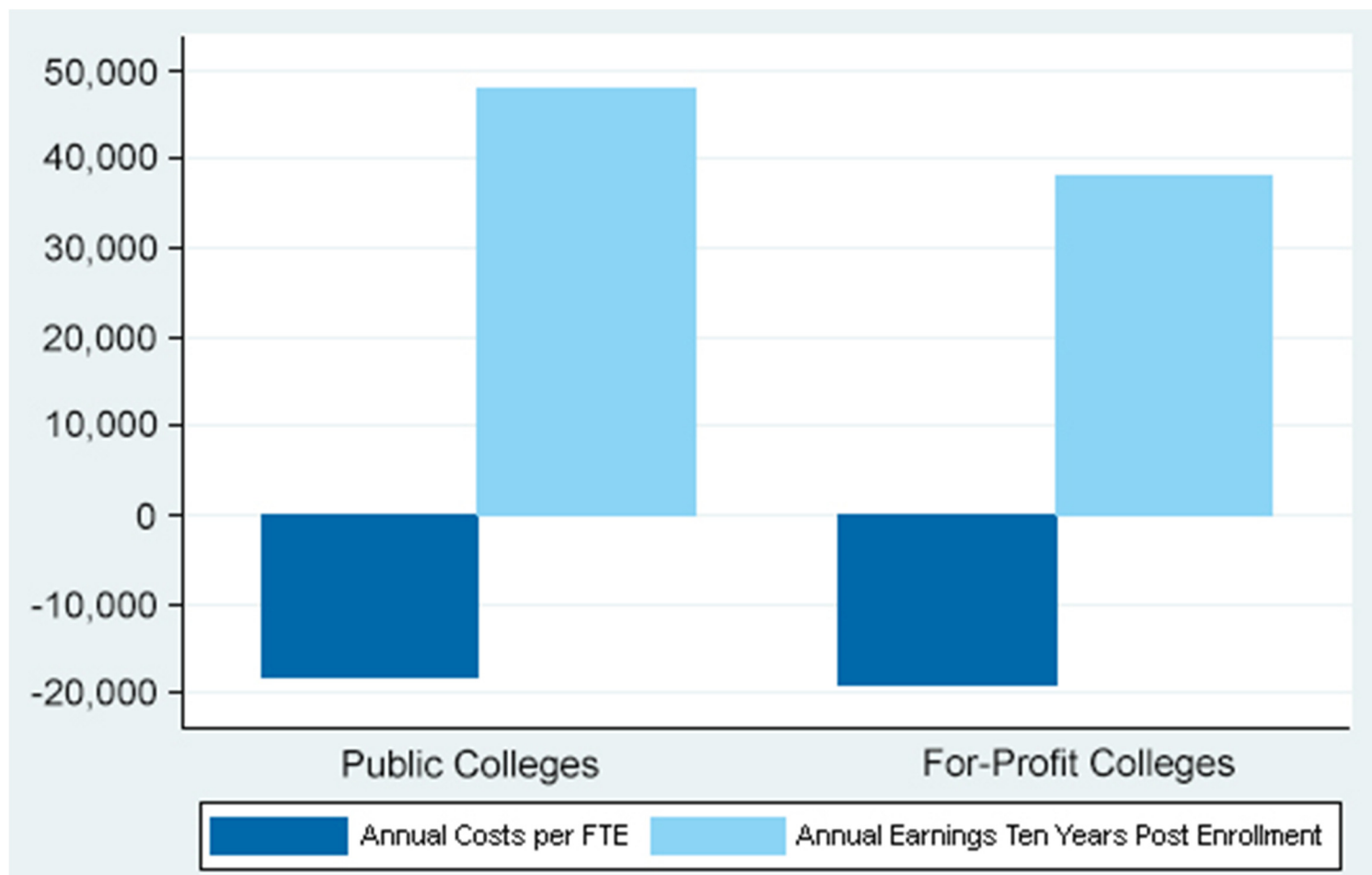
## By 2-Year Program: Earnings Penalty For-profit vs. Public



# Earnings Benefits and Costs: Two-Year Colleges

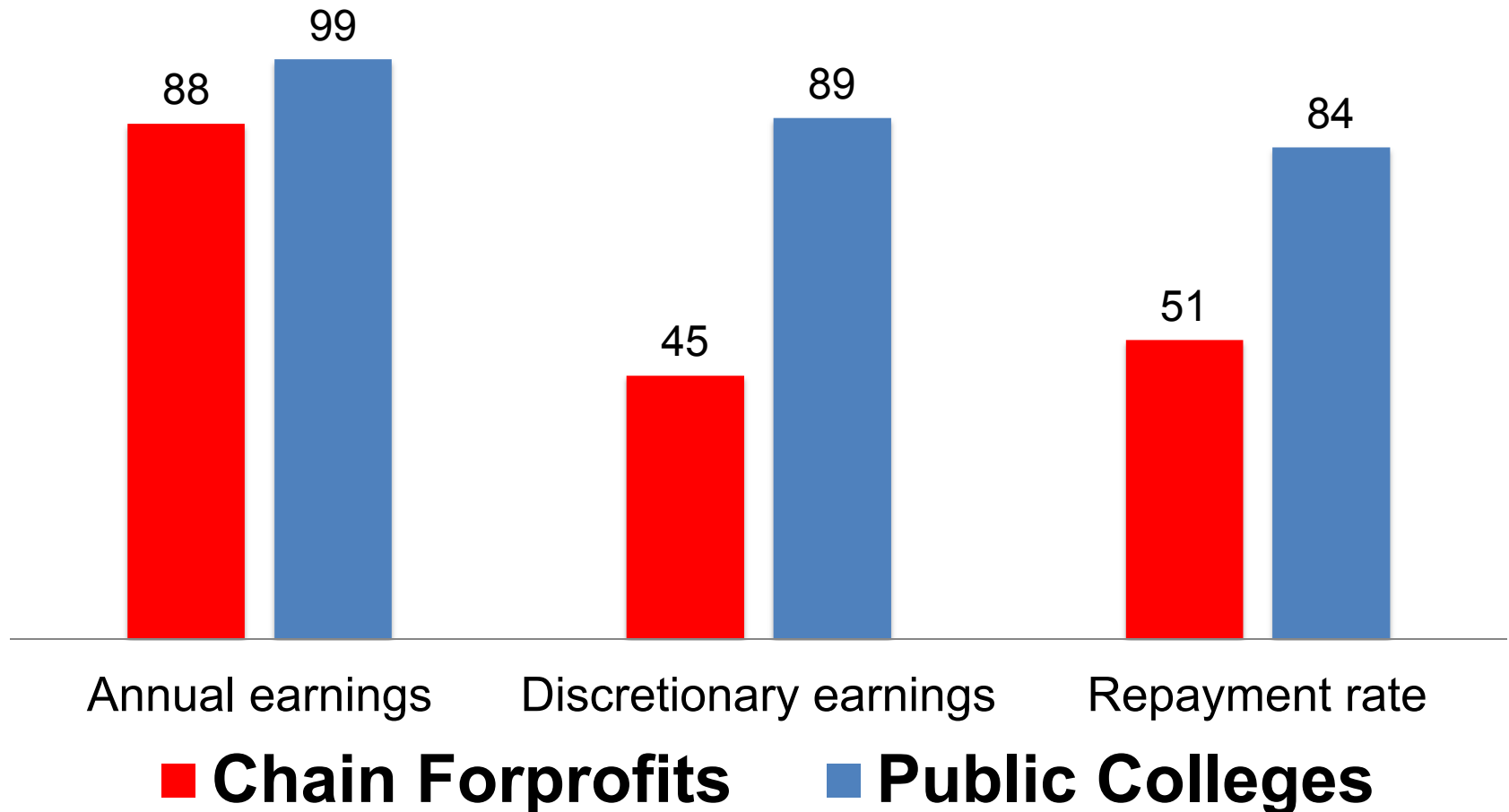


# Earnings Benefits and Costs: Four-Year Colleges



# Gainful Employment Standards

## Pass Rates Much Lower at For-profits



# State of For-profit Sector

**More expensive...**

**lower returns...**

**higher debt/default**

In this review:

- Depth of evidence
- Extent of difference; lack of overlap
- Social benefit-cost analysis

# Future of For-profit Sector

“Justification”:

- ~~Returns to society / taxpayer~~
- Supply-side response
- Heavy subsidies: soft landing or special treatment