

DISCUSSANT REMARKS

“DO STUDENTS PROFIT FROM FOR-PROFIT EDUCATION? ESTIMATING THE RETURNS TO POSTSECONDARY EDUCATION WITH TAX DATA” BY NICHOLAS TURNER

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THIS PAPER ADDRESSES IMPORTANT ISSUES concerning individual college attendance decisions and federal government support for higher education. The share of college students attending for-profit institutions is only 9 percent. Yet, because the costs of attendance are between 2.4 to 3.4 times higher than for those attending public colleges, 24 percent of Pell Grants and 36 percent of post 9/11 G.I. Bill benefits have gone to supporting enrollment at for-profit colleges.

Employing individual-year merged data from the Internal Revenue Service and the Integrated Postsecondary Education Data System (IPEDS), Turner compares earnings before and after enrollment at nonprofit versus for-profit institutions for tax filers with at least three years of pre-enrollment earnings. The specification includes individual fixed effects and controls for observables, but, regrettably, the data do not include course of study, which other research has indicated affects post-college earnings.

Turner's study shows that individuals enrolling at nonprofit institutions earn about an 8 percentage point higher return than those enrolling at for-profit institutions. Due to the relatively limited sample size (1,996 individuals), the differential earnings effect is not always statistically significant, and, oddly, the findings appear driven mostly by four-year institutions even though they account for only one-half of for-profit attendance and less than one-third of nonprofit attendance in Turner's sample. Thus, while the results seem plausible in light of the raw evidence on earnings, they merit further testing with a larger data set.

The sample data indicate that, prior to enrollment, enrollees at for-profit colleges earned nearly \$5,600 less per year than enrollees at not-for-profit colleges. Although the author conducts tests for

sample selection bias, more should be done along these lines in order to make a convincing case that it is the quality of institutions (and not of the enrollees) that drive the findings. In particular, it would be instructive to test the degree to which an individual's *level* of pre-enrollment earnings is determined by observables (including age, sex, marital status, occupation, geographic identifiers, and year) as opposed to the characteristics of the institution of subsequent enrollment.

To the extent such an investigation found that institutional characteristics influence pre-enrollment earnings, one would like some evidence on why this is the case. One possible reason is that individuals with lower ability are less able to detect institutional quality, and therefore err more frequently in their enrollment decision than individuals with higher ability. Another, more troubling, explanation would be that federal subsidies create incentives for for-profit colleges to attract less able enrollees. If the former explanation holds, government should ensure the availability of better information on institutional quality. If the latter explanation holds, there is need for more serious action to change institutional behavior.

Apart from Turner's findings that for-profit colleges attract less able students, one would like to see supplemental evidence on why they produce lower returns. Is it simply that they differ in their course offerings, or do they have lower quality instruction than not-for-profit colleges?

In summary, the paper raises an important cautionary note about the misallocation of individual and federal government spending on higher education. However, additional research on why investments in education at for-profit institutions have a low return is called for in order to formulate appropriate public policy actions.