Opinions

The investment in for-profit colleges isn't paying off

Signage is displayed outside the main building of the University of Phoenix, part of Apollo Group Inc., in Phoenix, Arizona, U.S., on Thursday, Oct. 14, 2010. Apollo Group is the biggest U.S.for-profit college by enrollment. (Joshua Lott/BLOOMBERG)

By Catherine Rampell Opinion writer September 25
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For-profit colleges can't get no respect, at least not from employers. Which suggests that maybe they should be getting less generous taxpayer subsidies, too.

For-profit schools — ranging from monolithic online chains like the University of Phoenix to smaller, fly-by-night operations that advertise on the subway — enroll about 12 percent of college students nationally. Yet they account for nearly four times that share of student-loan defaults, according to newly released federal data.

The typical explanation for the high default rates involves the fact that so few students actually graduate. Many end up with substantial debt but not the credential required to help them get a job — you know, the thing they explicitly went into debt for.

For example, at the University of Phoenix location that boasts the system's highest degree completion rate, only about a quarter of students who enter seeking a bachelor's degree ultimately complete one within six years. Among students who attend the University of Phoenix's online "campus" only, the six-year completion rate is a measly 4 percent.

But it turns out that dropout rates aren't the only reason this sector's default rates are so high. The lucky few students who actually complete their degrees have serious trouble getting jobs, too. Employers, it seems, just aren't that interested in graduates of for-profits, even when those graduates are otherwise indistinguishable from those of public colleges and univerisities.

How do we know this? Survey data about stated preferences in job applicants have suggested it in the past. And now a team of top-notch economics and education researchers — David J. Deming, Noam Yuchtman, Amira Abulafi, Claudia Goldin and Lawrence F. Katz — has backed that up with a real-world experiment.

As described in a new working paper, the researchers sent out nearly 10,000 fictitious résumés in response to online job ads. Holding job experience constant, they varied a few other details, including the kinds of institutions the imaginary applicants graduated from. Then they tracked which applicants got e-mails or phone calls inviting them to interview or otherwise continue the application process. (This kind of fake-résumé experiment, known as an "audit study," has also been used to determine whether employers discriminate based on race, age or length of unemployment.)

Lo and behold, applicants with a bachelor's degree in business from an online for-profit school were about 22 percent less likely to get a "callback" than applicants with similar degrees from nonselective public institutions. Applicants who graduated from small, local brick-and-mortar for-profits were also less likely to get a callback compared with those with degrees from public schools, though the difference was not statistically significant. (These findings were all for jobs that required a degree; with job postings that didn't explicitly require a B.A., having a postsecondary degree of any kind didn't seem to make a difference.)

It's unclear why employers were less interested in graduates of for-profit colleges. Maybe bosses associate for-profits with lower-quality education, or perhaps with a lower-quality student body. (The for-profit sector always protests, after all, that its dropout rates are so high because it takes more at-risk, nontraditional, underserved students.) Either way, the brand isn't a good one. In a world where college degrees seem increasingly aboutsignaling rather than actual skills, the signal very much needs to be positive.

These findings, like others suggesting that for-profit college graduates havehigher unemployment rates, should give pause not just to students considering attending such schools but to policymakers and taxpayers more broadly.

In the past decade, the share of students enrolling in the big online for-profits has grown at an astronomical pace, even though these schools are more expensive than public schools: The total cost of education (including both students' costs and public subsidies) is around 60 percent higher at for-profit colleges than at public institutions. Perhaps relatedly, the big for-profits are also exceptionally adept at extracting federal subsidies for students; seven of the 10 largest distributors of Pell Grant funds are online for-profits, the working paper notes, and the for-profit sector receives about a quarter of Federal Title IV aid.

Meanwhile, state governments have severely cut back funding for public institutions, even though by multiple metrics public schools seem to deliver a better bang for taxpayers' buck. In some ways, the for-profits have proven themselves nimbler and more adaptable to the changing marketplace than their public college cousins, and they do indeed enroll greater fractions of minority, disadvantaged and older students. But without better outcomes, it's not clear that giving them an ever-greater share of education subsidies is in students' — or the public's — best interest.