



Why has for-profit colleges' share of higher education expanded so rapidly? Estimating the responsiveness to labor market changes



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ABSTRACT

Over the last two decades, for-profit colleges (FPCs) have substantially increased their share of the higher education market. One potential explanation is that FPC sector may be more responsive to labor market changes than public competitors. Using panel datasets of Associate's degree students, we examine the effects of changes in labor market conditions across various employment fields on enrollment and degree completion in related majors. The results indicate that enrollment and degree completion in the FPC sector is positively related to employment growth and wages in related occupations, while public institutions remain largely unresponsive. Heterogeneity analysis reveals that these relationships are similar across groups of students by gender and ethnicity. Furthermore, the results also indicate that students in public institutions are non-responsive to changes in labor markets associated with requiring an Associate's or Bachelor's degree.

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1. Introduction

For-profit colleges (FPCs) are one of the most rapidly expanding types of higher education providers in the United States. Many of these schools focus on two-year programs, and over the past two decades they have accounted for much of the growth in Associate's degrees. FPCs doubled their enrollment of Associate's degree seeking students between 1995–1996 and 2010–2011, a rate of increase that was three times faster than in public community colleges. The number of Associate's degrees awarded grew even faster, with a

growth rate at FPCs that was six times faster than that at community colleges, resulting in FPCs increasing their share of Associates degrees awarded from 10% to 22% between 1995–1996 and 2010–2011.

Costs and the type of education services provided by FPCs differ from their public competitors. Knapp, Kelly-Reid, and Ginder (2011) report the average annual tuition difference between public community colleges and for-profit colleges to be approximately \$12,000 (see Kofoed, 2014 for analysis on financial aid allocation). Typically, for-profit institutions have had more limited program offerings, with many smaller FPCs specializing in only one or two programs. In contrast, public two-year institutions typically offer a wider spectrum of programs, with greater availability of general studies and liberal arts programs. For example, during the 2011–2012 academic school year, FPCs awarded 31% of all degrees in health fields, 25% in business fields, and 9% in computer and information sciences fields, while 42% of public two-year

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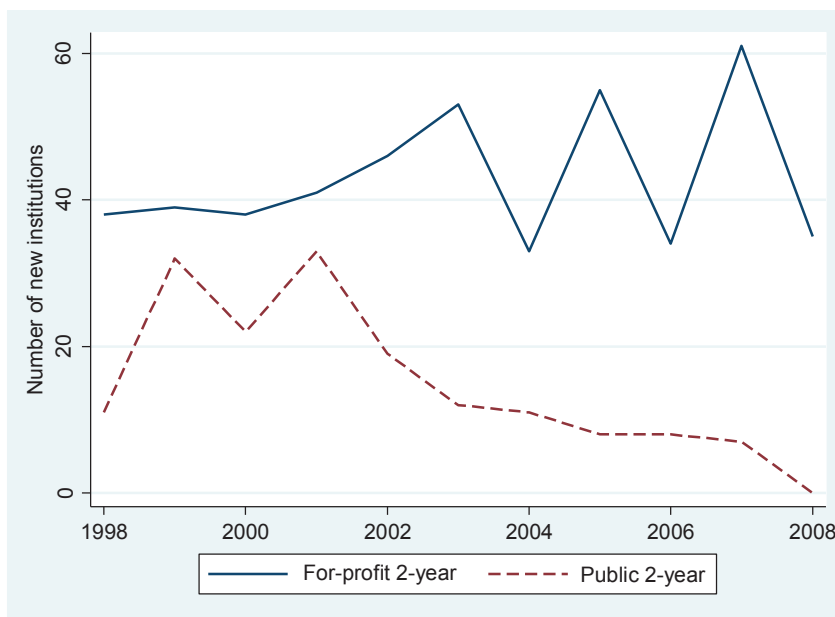


Fig. 1. Number of new public and for profit two-year degree granting institutions, 1998–2008.
 Source: Author calculations based on Integrated Postsecondary Education Data System (IPEDS).

degrees were awarded in liberal arts, humanities, or general education fields (*Digest of Education Statistics, 2012, Table 292*).

FPCs have also rapidly expanded into new fields. Little literature exists to rigorously compare the barriers to entry in the higher education market and how these barriers compare across for-profit and public institutions. Data on new institutions and programs suggest that FPCs are much more likely to be entrants. *Fig. 1* shows the number of new two-year institutions from 1998 through 2008. Although there are substantially more public institutions than private, between 35 and 60 new two-year FPCs opened each year during this decade, on average at least twice as many as the number of public entrants in the same year. *Fig. 2* displays this information by field of study.² A new field of study is defined as one where no related majors existed in previous years. *Fig. 2* shows that in each year between 1998 and 2008, roughly 5% of the fields of study at public institutions are new introductions, while on average between 10 and 20% of the fields of study are new introductions at for-profit institutions.³

For-profit colleges have structural features that may allow them to quickly adapt to changing economic conditions, generating new entry. For example, FPCs typically have a different governance structure than public institutions, with more defined stakeholder interests, fewer tenured faculty, and physical and financial structures that allow more flexibility. One potential explanation for the expansion of FPCs may be greater program flexibility related to labor market

conditions. This could allow them to capture more of each programs' enrollment share, while public institutions may not be as nimble in adjusting their program offerings.

Does some of the growth of FPCs represent differences in responsiveness to labor market conditions, or does this simply reflect an overall shift towards this new institutional option? To evaluate this, we examine enrollment and degree completion in various Associate's degree programs across states and over time in response to labor market conditions within related occupations. Although there is a growing body of research on individual's choice to enroll at FPCs versus community colleges, with particular emphasis on student characteristics and tuition at competing schools (see *Cellini, 2009; Chung, 2012; Deming, Goldin, & Katz, 2012; Turner, 2003*), to our knowledge there is little research exploring how changes in the labor market conditions affect the share of students at FPCs.⁴

Following the literature, we examine the Associate's degree level and restrict the comparison group to two-year public institutions (i.e., community colleges).⁵ We focus on Associate's degrees for several reasons. First, certificate programs are much more heterogeneous, making it more difficult to isolate the relative roles of for-profit or public institutional status. Focusing on two-year degree granting institutions limits the analysis to institutions that are fairly comparable along many other dimensions. Second, many of the concerns about

² Majors are aggregated into 12 broad fields of study (e.g., business, education, legal studies, etc.), as defined in more detail below.

³ Schools must establish a Program Participation Agreement with the US Department of Education to be a Title IV institution by meeting eligibility requirements of state licensure, institutional accreditation, standards of financial responsibility and administrative capability. A participating school must also comply with various state and federal laws.

⁴ The closest research is *Turner (2003)* who studies the effect of local unemployment rates on the rate of enrollment at FPCs. The research finds that enrollment at for-profit institutions are sensitive to changes in the local economic conditions, but does not provide empirical analysis on whether public competitors are also influenced. Thus, the relative responsiveness is not estimated.

⁵ The FPC literature uses community colleges as a comparison group to reduce selection bias (see *Chung 2008; Cellini 2009, 2012; Deming, Goldin, and Katz 2012*).

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