

Dynamic Effects of H-1B and Section 127 Policy on Higher Education

John Vandivier^a

^a4400 University Dr, Fairfax, VA 22030

Abstract

Section 127 of the United States Internal Revenue Code provides for a tax deduction to employers that provide financial assistance to help employees pay for education. Counterintuitively, enrollment in higher education slowed around the creation of Section 127. Further, a simple regression of the inflation-adjusted tax-deductible limit on education enrollment indicates a significant negative correlation. These findings raise concerns about omitted variables bias. After taking extensive steps to account for dynamic economic conditions and various policy effects, analysis robustly identifies positive marginal employer assistance effects on enrollment. The linear and total effects of interest remain negative over the main period of analysis from 1992 through 2017. Controlling for H-1B policy effects leads unexpectedly to the identification of H-1B policy as a comparatively preferred policy tool. Results are validated using vector autoregression (VAR), dynamic ordinary least squares (DOLS), and instrumental variable (IV) analysis.

Keywords: tuition reimbursement, education economics, h-1b

2010 MSC: H4, I22, J32, J38

Email address: `jvandivi@masonlive.gmu.edu` (John Vandivier)