

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

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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

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1. Introduction

The passage of Public Law 95-600 in 1978 created Section 127[1]. Section 127 provides for a limited employer tax deduction for the transfer of money to an employee for educational purposes. This paper tests the hypothesis that the causal effect of Section 127 employer assistance on total university enrollment is positive. Results show that employer assistance has a positive marginal effect on enrollment and negative linear and total effects. H-1B visa policy is a comparatively effective policy instrument for enrollment, national student loan debt, and the price of education.

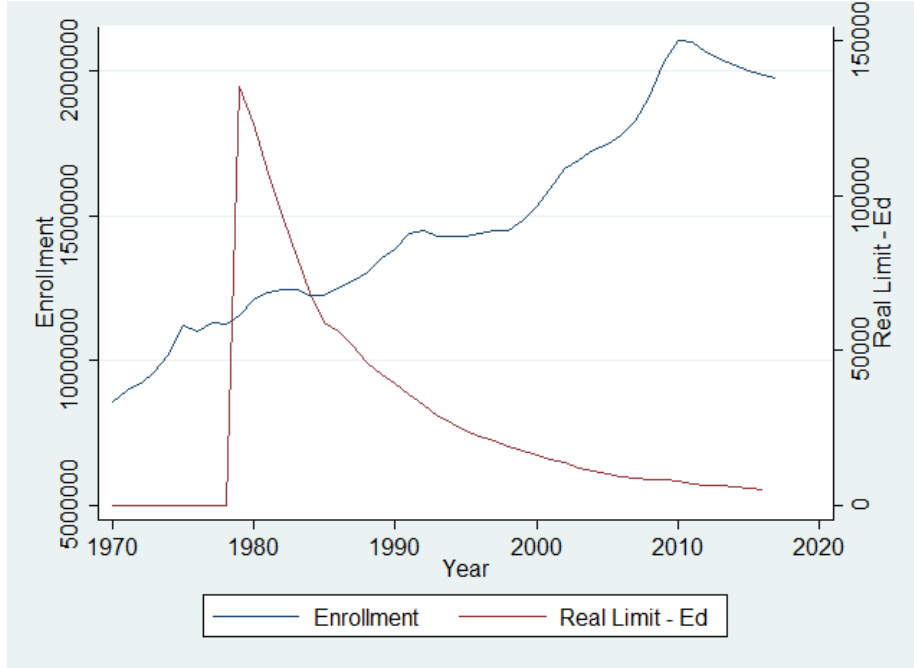
Figure 1 illustrates university enrollment over time and the real maximum deductible amount for Section 127 educational assistance. Here, education-specific inflation informs the real assistance limit. This paper hypothesizes that the apparent inverse relation is a superficial result of variable omission. Analysis in this paper controls extensively for dynamic policy and economic variation. The use of multiple specifications ensures the robustness of findings. In one specification, vector autoregression (VAR) provides evidence on Granger causality.

The failure of several simple theories to successfully explain the observation of enrollment slowdown in the late 1970s and 1980s further motivates the present study.

1.1. Simple Supply-Side Explanations

One hypothesis is that there is an adjustment period between the creation of Section 127 and widespread employer provision of the newly deductible benefit. Allowing for a 3 or 5 year lag around the passage of Public Law 95-600 fails to harmonize observed enrollment slowdown with the expected increase to demand. Across the eight five-year periods from 1970 to 2010, the five-year public enrollment growth rate was above 9 percent half of the time. Two of the four low-growth intervals occurred immediately after the 1978 creation of Section 127. The period just prior, from 1970-1975, saw the highest growth in enrollment across those eight periods.

Figure 1: Enrollment and Real Assistance Over Time



Surveys of employers provide further data on employer provision of educational assistance over time. Cappelli identifies three employer surveys from 1992 and 1993, which indicate that at least 86 percent of surveyed employers provided educational assistance[2]. These early surveys consist of samples of convenience.

35 Nevertheless, further considerations lead Cappelli to conclude that a substantial majority of employers offered such plans over his period of analysis from about 1990 to 2004. The provision of this kind of benefit remains common in later years. In 2013, SHRM reported that 61 percent of employers offer tuition assistance[3]. In 2017, World at Work found that 85 percent of employers of-

40 ferred such a benefit, with another 7 percent offering non-reimbursement tuition assistance, such as upfront tuition discounts[4]. In summary, the simplistic hypothesis of lagged or bottlenecked employer support for Section 127 fails to solve the problem.

1.2. Simple Demand-Side Explanations

45 A simple regression of real employer assistance on enrollment may yield a significant negative correlation wholly due to consumer effects. The factual claim of decreasing market demand is consistent with observation, but it began before the passage of Section 127. Falling average tuition and fees are observed for all institutions from 1972 to 1980. The college-age enrollment percent does
50 not increase substantially from 1970 to 1980. Higher education prices increase after 1980, as do the college-age enrollment percentage and total enrollment.

Because the decline in demand predates the passage of Section 127, the cause of decline must be located elsewhere, at least in part. Simplistic demand-side identification of the effects of employer assistance fails due to omitted variable
55 bias. Important omitted variables include controls for inflation, the price of education, and relevant policy changes. Immigration, veteran education, and federal lending policy undergo fundamental changes in proximity to 1978 and in years later. Sufficient identification of the effect of Section 127 must account for changes in these variables over time.

60 2. Empirical Model

This paper takes multiple steps to ensure robustness and analytical completeness. The final results are consistent across three empirical specifications. In addition to the variable of interest, this paper tests two other left-hand variables. Testing these two secondary dependent variables of interest improves
65 confidence in the theoretical and applied soundness of the conclusion.

Total postsecondary enrollment in the United States is the dependent variable. The Section 127 policy effect is the right-hand parameter of interest in the first two specifications. Equation 1 is the first specification of interest. This model is an ordinary least squares model. Here, α is a $1 \times k$ vector of coefficients,
70 and V is a $k \times 1$ vector of annually observed independent variables.

$$Y_t = \alpha V_t + u_t \tag{1}$$

Policy variables exist for federal lending policy, veteran education benefits, and H-1 Visa policy. Two additional non-policy variables include time, in years, and the real price of university tuition plus mandatory fees.

Equation 2a describes the next specification. This model follows the Anderson–Hsiao pattern[5] with the lagged variable of interest as an instrument. This specification investigates concerns of potential endogeneity in the dependent variable. It is both an instrumental variable model and also a dynamic ordinary least squares (DOLS) model.

$$\Delta Y_t = \beta W_t + Bz_t + e_t \quad (2a)$$

$$z_t = \delta W_t + DY_{t-2} + g_t \quad (2b)$$

Here, β is a $1 * l$ vector of coefficients, and W is an $l * 1$ vector of annually observed independent variables. z is the instrument, and it is a projection of lagged enrollment derived from twice-lagged enrollment. Equation 2b explicitly derives z .

l is a transformation of k from Equation 1. l contains five variations of each variable in k . The first variation is the non-transformed value. The other variations include the first and second lags and differences for each variable in k .

The third specification is a vector autoregression (VAR) model. Six related models follow the general reduced form described in Equation 3c. This first model following this functional form is a two-variable case. This first model is similar to the previous non-VAR specifications because it identifies the effect of real employer assistance on total enrollment. A second model follows the same form, but the independent variable is H-1B visa issuance, instead of Section 127 assistance.

$$v_t = \alpha_0 + \alpha_1 v_{t-1} + \alpha_2 v_{t-2} + \dots + \alpha_i v_{t-i} + u_t \quad (3a)$$

$$V_t = \alpha_0 + \alpha_1 v_{1,t-1} + \alpha_2 v_{2,t-1} + \dots + \alpha_{ik-1} v_{k-1,t-i} + \alpha_{ik} v_{k,t-i} + u_t \quad (3b)$$

$$Y_t = \sigma_k V_{kt} + e_t \quad (3c)$$

Equation 3a is a univariate autoregression. Dependent and independent variables are uniformly represented by v_t . An ordinary least squares function of i lags explains the current-period value of the variable in the univariate regression.

Equation 3b extends this operation to k variables. Notice that V_t is not a collection of univariate v_t . Instead, it is a $k * k$ vector, a constant, and an error term.

Equation 3c obtains V_t as specified in Equation 3a for all variables in k , then fits an ordinary least squares model across V_{kt} to explain the current-period dependent variable, Y_t . Section 127 effects turn out to be insignificant in the specification described by Equation 3c, but H-1B effects are significant. As a result, all four remaining VAR equations use H-1B issuance as the independent variable.

Two of the four remaining models are three-variable extensions of the prior specification. These two models extend Equation 3c by adding a second stage response. In the first case, the second-order response is federal student loan debt. In the second case, the second-order response is the price of higher education. David Schenk suggests Cholesky decomposition as a method of generating an ordered impulse-response function from a VAR[6]. Equations 4a and 4b describe Cholesky identification.

$$e_t = Bu_t \quad (4a)$$

$$\Sigma = E(e_t e_t') = E(Bu_t u_t' B') = BE(u_t u_t')B' = BB' \quad (4b)$$

The left-hand error term in Equation 4a, e_t , is the same as in Equation 3c. The right-hand of Equation 4a defines B , which is the coefficient matrix for u_t .

Structural, or uncorrelated, errors are defined as u_t . Endogenous error in B
120 allows us to estimate the effects of arbitrary innovation in some variable in V_k .

The reduced form BB' in Equation 4b matches many matrices. There does
exist a unique lower-triangle matrix which satisfies the equality statement with
 Σ , the covariance matrix of the errors. Selecting the lower-triangle solution is
isomorphic to stipulating a causal direction of effect on the variables in the VAR.
125 The order imposed during the VAR calculation process is called a Cholesky ordering.
This paper selects theoretically-grounded Cholesky orderings. Measures
of the fitness of the resulting models are considered evidence about Granger
causality.

The last two models in the six-model VAR family are also simple two-factor
130 VAR models. These models test the hypothesis that enrollment effects are
extraneous to the effects of H-1B policy on student loans and the price of higher
education. The form of these models follows the specification in Equation 3c,
but the independent and response variables are different. H-1B issuance is the
independent variable. The response variable is federal student loan debt in one
135 case. The price of higher education is the response variable in the other case.

3. Data

Information on total enrollment for all degree-granting postsecondary insti-
tutions in the United States is provided by the National Center for Education
Statistics (NCES)[7]. Enrollment figures are for the fall semester of the school
140 year. The values that NCES provides for years after 2018 are projections. The
present study does not use any of the projected values. Other data sources and
policy considerations constrain the period of interest to the 27 years from 1990
to 2016.

Personal Consumption Expenditures (PCE) data is a measure of inflation
145 provided by the U.S. Bureau of Economic Analysis (BEA)[8]. NCES data al-
lows the calculation of education-specific inflation[9]. NCES data is the average
tuition and required fees for full-time undergraduate students across all degree-

granting postsecondary institutions. NCES provides nominal values and values
adjusted for the consumer price index (CPI) for tuition. Cost information does
150 not include the price of room and board. 2016 is the base year for each measure
of inflation.

Nominal Section 127 limits are a matter of public law. Section 127 took effect
beginning after December 31, 1978, with a nominal assistance limit of 5,000
dollars[1]. In October 1986, Pub. L. 99-514 increased the nominal assistance
155 limit to 5,250 dollars[10]. Combining nominal assistance over time with CPI
and education-specific inflation data yields two real measures of inflation.

Changes to veteran education benefits are also a matter of public law. A
categorical state variable represents veteran education benefits from 1970 to
2020 and allows for five different states. The Servicemen’s Readjustment Act
160 of 1944 is also called the G.I. Bill. This bill is the first relevant case of veteran
benefits, but it precedes the period of interest for this study.

The original bill expired in 1956[11]. This expired state is the first state
represented by the veteran education state variable. The Veterans Educational
Assistance Program (VEAP) passed in 1981[12]. The third period of interest
165 begins in 1984 with the enactment of the Montgomery GI Bill[13]. The fourth
period of interest begins in 2009 with the Post-9/11 GI Bill.

Finally, many benefits from the Forever GI Bill became effective in 2018,
with additional provisions taking effect in 2020 and 2022[14]. This fifth policy
state is too recent to be included in the period of interest. The recent changes
170 in veteran education benefits are a critical caveat for any attempt at forecasting
or prediction outside of the period of study.

Due to constraints on the availability of other right-hand variable data, the
main period of regression analysis ranges from 1990 to 2016. Veteran education
benefits exhibit only one change during this period, but this factor proves to be
175 significant in the preferred model.

Stafford loan data is another critical component of the analysis. Stafford loan
limits impact the supply of loanable funds, which indirectly modifies demand
for education. Stafford data also broadly proxies non-military federal student

aid policy. There are two variables for Stafford loans. The first variable is
180 the nominal loan limit for undergraduates. The second variable is a dummy
variable. The dummy variable indicates whether the undergraduate loan limit
is the combined limit for undergraduate and graduate loans. A policy change in
1993 grouped these limits. FinAid provides the Stafford loan data used in this
study[15].

185 Visa policy is a complex issue. The number of H-1B visas issued each year
is an essential variable in this study. The Immigration Act of 1990 decomposed
the existing H-1 visa into distinct H-1A and H-1B categories. Later legislation
established the H-1B1, H-1C, and many other visa classifications, but these are
mostly inapplicable to the present research. The H-1B visa is most relevant
190 for this study because it relates explicitly to the undergraduate degree. The
Immigration Act of 1990 makes available the H-1B classification for specialized
workers, or workers in a specialty occupation. That legislation formally defines a
specialty occupation as "an occupation that requires...attainment of a bachelor's
or higher degree..."

195 H-1 visas are a subgroup of nonimmigrant visas. Nonimmigrant visa award
data by classification from 1987 to 2019 is provided by the Bureau of Consular
Affairs within the United States State Department[16]. This paper exclusively
uses the most relevant H-1B visa award numbers, but reanalysis with other
visa classifications could yield statistically significant findings. The prior H-1
200 visa was also a merit worker visa, but it had no formal definition of merit. It
is plausible that the college-educated effect informally existed before the 1990
legislation. One might also find small but significant effects by looking into visas
outside the H-1 family. Besides the number of actual visa awards, an analyst
could look for visa cap effects or visa policy state effects. For example, the Pew
205 Research Center notes that the American Competitiveness in the 21st Century
Act of 2000 exempts certain entities from the H-1B cap[17].

The last data source of interest is on actual federal loans. Actual federal
loans stand in contrast to loan limits, which are represented by the Stafford
loan limit variable. Loan limits are a policy choice, but after correcting for loan

210 limits, the actual amount of loans made primarily represents a demand effect.
As such, we would not want to correct for actual loans. That would wipe out
the effect of interest, which is the demand effect attributable to various policies,
and Section 127 employer educational assistance in particular.

Loan data generates results as a left-hand variable of secondary interest,
215 rather than as an independent variable. The variable I use in this regard is
total federal undergraduate loans. College Board provides loan data. College
Board also gives the additional context in a report which is related to the loan
data[18]. The additional context suggests that an analysis that decomposes
federal loans by type could yield preferred statistical results[19].

220 4. Results

4.1. Multiple Regression Results

The key independent variable is the real value of Section 127 assistance.
Two potential left-hand variables exist at the outset. Ordinary least squares
(OLS) multiple regressions of visa effects, time, and tuition were run against
225 both total enrollment and public university enrollment. Total enrollment was
more predictable than public university enrollment, so it was selected as the
preferred enrollment variable.

With total enrollment as the explained variable, a kitchen sink multiple
regression was used to select the most influential factor from among each factor
230 group. The total number of visas issued across classification, the Stafford loan
limit, and measures of tuition were identified as insignificant. Table 1 is a table
of regressions which helps illustrate that, somewhat surprisingly, real measures
of employer assistance capture price and inflation effects in a preferred way
compared to using a more direct measure of tuition.

235 Tuition is insignificant in model 1. Replacing tuition with PCE and education-
deflated employer assistance in model 2 identifies the latter with significance at
the 0.1 level and also improves the overall explanatory power of the model. Real

Table 1: Table of Multiple Regression on Total Enrollment, Selected Variables

	1	2	3	4
Montgomery GI	-1.059e+06++ (4.195e+05)	-1.080e+06++ (4.093e+05)	-1.076e+06** (2.668e+05)	-9.604e+05++ (3.533e+05)
Real Limit - Ed and PCE		-9.659e+02+ (5.198e+02)		
Real Limit - Ed	1.162e+03** (2.171e+02)	1.231e+03** (2.260e+02)		-4.416e+02 (3.092e+02)
Real Limit - Ed ²			3.534e-02** (8.705e-03)	5.906e-02** (7.304e-03)
Real Limit - Ed ³			-4.752e-07* (1.564e-07)	-8.301e-07** (9.794e-08)
Tuition CPI	7.422e+02 (4.638e+02)			
H-1 Visa	-7.820e+01* (2.284e+01)	-7.702e+01* (2.214e+01)	-2.646e+01 (1.938e+01)	
H-1B Visa	-4.667e+01+ (2.516e+01)	-5.077e+01+ (2.496e+01)		-1.731e+01++ (7.763e+00)
H-1B ²	9.363e-04++ (4.065e-04)	9.944e-04++ (4.015e-04)	8.564e-05 (6.804e-05)	4.266e-05 (3.394e-05)
H-1 Non-H-1B	1.273e+02* (3.918e+01)	1.238e+02* (3.778e+01)	5.289e+01 (3.295e+01)	
Year	4.169e+08* (1.236e+08)	4.094e+08* (1.130e+08)	2.365e+08** (2.720e+07)	2.478e+08** (3.236e+07)
Year ²	-1.037e+05* (3.077e+04)	-1.018e+05* (2.814e+04)	-5.875e+04** (6.756e+03)	-6.155e+04** (8.022e+03)
R-sqr	0.9973	0.9975	0.9970	0.9965

Standard errors in parentheses

+p < 0.10, ++p < 0.05, *p < .01, **p < .001

employer education assistance which is solely corrected for the price of education is eventually preferred to the multiple-deflated measure. This makes the education-deflated real employer assistance limit the preferred Section 127 variable. After deciding on this variable as the preferred measure, quadratic, cubic, and interaction transformations are investigated. The interaction of Section 127 policy and visa effects turns out to be small in magnitude, low significance, and in possession of a sign which is sensitive to specification.

Model 4 is preferred out of the models presented in Table 1. While model 1 has the highest r-squared value, model 4 has an adjusted r-squared equal to model 1. Model 4 is the result of a thorough nonlinear investigation, while models 1 and 2 are not. Model 3 is technically stronger but difficult to interpret. For example, interpreting the H-1B visa policy effect is not straightforward, both because a linear effect is missing in the model and also because other H-1 variables are present which make pure H-1B effect attribution impossible.

All four models are technically very strong, but model 4 makes interpretation simple. The linear effect of real Section 127 assistance is insignificant and negative with low confidence. The marginal effect is highly significant and positive but decreasingly positive. The total effect in the relevant range is also positive¹. This indicates that a real increase to Section 127 assistance would further boost enrollment, but such increases would be decreasingly effective.

H-1 visa effects are complex and important across specifications. The preferred model identifies a significant negative linear effect on enrollment from H-1B visa issuance. There is an insignificant positive marginal effect and a total negative effect. While the preferred model focuses on H-1B effects, analysis shows this is largely generalizable to the H-1 family. In fact, substituting H-1 total issuance for the linear H-1B variable improves linear visa effect signifi-

¹Elimination of nonlinear effects from the preferred model acts as a robustness check, identifies the direction of the total effect in the relevant range, and maintains significance for all factors. The real Section 127 assistance coefficient has a point estimate of 623 in such a model, and the H-1B visa issuance coefficient takes a value of about -15.

cance, although it does not improve raw or adjusted explanatory power for the
265 model overall. That move also is not preferred because the linear effect and the
marginal visa effects would then correspond to different measures.

Time is the most consistently significant variable across multiple regressive
models. Time, measured in years, intuitively possesses a positive linear effect
and a negative marginal effect on total enrollment. The total effect of time
270 over the period of the analysis is also strongly positive. A simple regression
of time on total enrollment has an adjusted r-squared of about .95. Analysis
using specifications that are explicitly dynamic is motivated in part by early
identification of such important time effects.

4.2. Dynamic Ordinary Least Squares Results

275 Dynamic ordinary least squares (DOLS) models supplement multiple re-
gressive analysis in at least two ways. First, autocorrelation can be removed
using lagged variables in an Anderson-Hsiao adjustment[5]. Second, atemporal
marginal effects can be tested against marginal effects in a dynamic context,
which improves model utility in an applied context.

280 Table 2 compares selected variables from two models of interest. Selected
variables include any variable which appears in both models. The first model of
interest is the preferred multiple regression with an Anderson-Hsiao adjustment.
The Anderson-Hsiao adjustment involves three changes that allow an analyst to
address an issue of actual or potential autocorrelation in the dependent variable.
285 The first step in the adjustment is to leverage an instrumental variable regression
instead of an ordinary least squares regression. The second step is to pick
a particular instrumental variable, often called the Anderson-Hsiao estimator.
The Anderson-Hsiao estimator is a twice lagged first difference of the dependent
variable. The third step is to replace the dependent variable with the first
290 difference of itself. After taking these three steps, the model is removed from
overlapping periods, which contribute to autocorrelation over time. The second
model of interest is the preferred DOLS model.

The preferred dynamic OLS model obtains an adjusted r-squared of about

Table 2: Table of DOLS Regression on Total Enrollment, Selected Variables

	5	6
H-1B ²	-4.217e-06 (5.768e-05)	7.578e-04++ (3.354e-04)
H-1B ³		-2.086e-09++ (9.547e-10)
Real Limit - Ed	3.359e+02 (5.214e+02)	-2.202e+02+ (1.014e+02)
Real Limit - Ed ²	-4.256e-04 (1.294e-02)	5.406e-03++ (2.026e-03)
Year ²	-2.064e+04 (1.633e+04)	-5.706e+01* (1.489e+01)
R-sqr	0.5172	0.9252

Standard errors in parentheses

+p < 0.10, ++p < 0.05, *p < .01, **p < .001

0.85. In contrast, the simple adjustment to the preferred multiple regression
 295 obtains an adjusted r-squared of about 0.26. A surprising result is that the
 Anderson-Hsiao estimator is insignificant across various specifications, including
 the preferred DOLS model ($p = 0.51$). Time effects are independently significant
 in the model. These results indicate that the apparent autocorrelation is due to
 independent effects, including unobserved effects, which are effectively proxied
 300 by time.

While the Anderson-Hsiao estimator is insignificant, dropping that variable
 and running an ordinary regression reduces adjusted r-squared to 0.82, but all
 independent factors retain significance. This demonstrates comparative model
 robustness over the preferred multiple regression. For this reason, the preferred
 305 DOLS model, with or without instrumentation, is preferred to the preferred
 multiple regression identified as model 4 in Table 1.

Lagged employer assistance effects are insignificant when explaining the first
 difference in total enrollment. The first and second differences are significant.
 The current period linear and marginal effects are also significant. The first
 310 difference and the current period marginal effects are both significant and pos-
 itively signed. This indicates that raising assistance within-period and between
 periods are both expected to boost enrollment at the margin. Both marginal
 effects follow an Inada-like pattern, where the marginal effect is decreasingly
 positive. The linear effect on employer assistance is significant and negative.

315 I now calculate the total effect of employer assistance. Model 6, the preferred
 model, is fit to the years 1992 through 2017. The average values for the relevant
 independent variables over this period include an average real assistance limit of
 13942.22, an average squared assistance limit of 2.56×10^8 , an average first differ-
 ence in assistance of -1228.18, and an average second difference of 122.87. Based
 320 on these values, the total effect of employer assistance over the model period is
 a decrease in enrollment by about 3.34 million². Suppose a steady-state, where

²The total effect is the rounded result of solving $X = -220.1953 * 13942.22 + (2.56 * 10^8) * .0054062 + 1314.489 * -1228.18 - 355.0654 * 122.87$.

Section 127 assistance has been constant for more than three periods. In this situation, a \$1,000 increase over the next period would result in a value of \$1,000 for the first and second differences. In this situation, the effect of a dynamic
325 \$1,000 real increase to employer assistance would be to increase enrollment by about 7.45 million³.

First-difference, lagged, and current H-1B visa effects are all significant, but linear visa effects are not significant. DOLS specification reveals significant lagged marginal effects and positive lagged cubic effects. The lagged linear effect
330 is isomorphic to the first difference in this specification, and the first difference is positive. The total lagged effect indicates that as lagged period visa count increases, the expected change in current period visa issuance is both positive and eventually increasingly positive.

Other than lagged effects, dynamic visa effects are consistent with an insight-
335 ful refinement of visa effects identified under multiple regression analysis. For example, an insignificant positive quadratic effect is identified in the preferred ordinary multiple regression. In the preferred DOLS, a positive marginal effect is identified with significance. A negative first difference is also identified with significance. It makes sense that forcing these related and opposing marginal
340 effects into a single variable would lead to insignificance in a non-dynamic specification.

Using a dynamic specification, we can see that marginal effects within and between periods are stable, but they move in different directions. Moreover, both of these marginal effects have an attenuating higher-order counterpart.
345 The positive static marginal effect is attenuated by a negative cubic effect. The negative dynamic static marginal effect is attenuated by a positive and significant second-difference coefficient.

It is important to note that DOLS models explain a slightly smaller period of analysis because of the use of lagged variables. While the preferred multiple

³The period-over-period effect from a steady-state is computed as $X = -220.1953 * 1000 + .0054062 * 1000 * 1000 + 1314.489 * 1000 - 355.0654 * 1000$.

350 regression covers 27 annual samples from 1990 to 2016, the preferred DOLS
model obtains a sample size of 25 over the period from 1992 to 2016.

In summary, DOLS analysis demonstrates non-robustness in the preferred
non-dynamic model, then provides a preferred alternative model. DOLS analysis
demonstrates that autocorrelation is not an important concern. DOLS also
355 provides rudimentary causal evidence by identifying significant lag effects.

4.3. Vector Autoregression Results

Vector autoregression (VAR) improves on DOLS specifically for the purpose
of identifying causal effects, policy instruments, and effects over many periods.
The difference and lag effects of the first and second orders were arbitrarily
360 selected DOLS analysis. In contrast, VAR lag selection techniques involve non-
arbitrary selection criteria.

Employer assistance, visa, and time effects are the only factors in the pre-
ferred dynamic model. Prior analysis ruled out the significance of an interaction
variable between visa and employer assistance effects. As a result, the two initial
365 VAR models are both simple, two-variable models.

For the employer assistance model, an extended sample of 43 observations
over the period from 1974 to 2016 is used. For the H-1B model, 24 samples
over the period from 1994 to 2017 are used. Ivanov and Kilian find that the
Schwarz Information Criterion, also called Schwarz's Bayesian information cri-
370 teria (SBIC), is the most accurate selection criterion for sample sizes less than
120[20]. For that reason, I prefer this criterion. Fortunately, all significant selec-
tion criteria provided by STATA unanimously agreed in the case of lag selection
for both models. Such criteria included SBIC, the likelihood ratio (LR), the
final prediction error (FPE), Akaike Information Criterion (AIC), and Hannan-
375 Quinn Information Criterion (HQIC). For both models, the optimal lag length
is identified at two periods. The p-value for the optimal lag was less than 0.001
for both models.

VAR results for employer assistance are directionally consistent with prior
analysis. A positive shock to employer assistance is associated with a down-

ward parabola curve response. The response, however, is not significant for any period, even when using a 60 percent confidence interval.

VAR results for an H-1B policy impulse are significant. A positive shock to H-1B issuance is also associated with a downward parabolic response. The H-1B policy effect is insignificant for the first two periods, but it reaches a significant positive effect in the third period. The positive effect plateaus in the seventh period, then it reverses and reaches permanent insignificance in the eleventh period.

Increased enrollment reflects an increase in demand which is associated with increased tuition and debt both theoretically and in the present data⁴. From a policy perspective, increasing enrollment may not be desirable. Higher education has a great return from an individual perspective, but there are several concerns from a social perspective. Examples include concerns about grade inflation, credential inflation, experience inflation, and the social return to education spending abound. For example, Forbes magazine recently pointed out that the price of college is increasing almost eight times faster than wages[21]. Edvisors notes that the average tuition inflation rate is double the average CPI-U[22]. Many in the media consider the size of federal student loan debt to be a crisis. Because H-1B policy is an enrollment instrument, and enrollment is directly related to loans and real tuition, further analysis investigates a downstream effect of H-1B policy on loans or real tuition.

A short regression of total loans, CPI-adjusted tuition, and an interaction variable on total enrollment identifies a positive but insignificant ($p > 0.2$) interaction between tuition and loans. A more sophisticated analysis might prove that the interaction does exist, but even supposing significance, the correct Cholesky ordering is non-obvious. Based on this information, further analysis

⁴A simple regression of total enrollment on total federal loans yields a positive coefficient with a p-value less than 0.001 and an adjusted r-squared of 0.973. A simple regression of total enrollment on CPI-adjusted real tuition yields a positive coefficient with a p-value less than 0.001 and an adjusted r-squared of 0.915.

scopes loans and tuition to separate models.

Figure 2: H-1B VAR Results

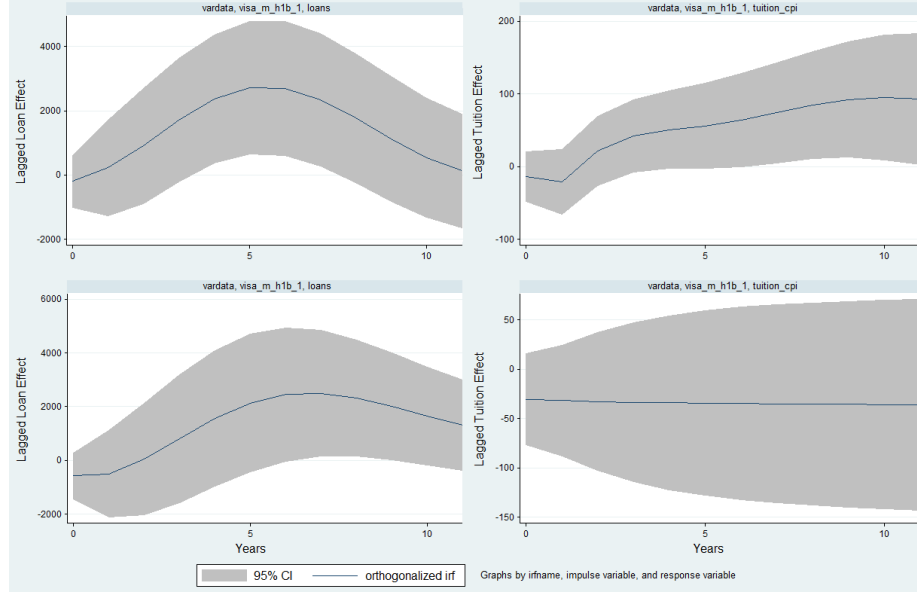


Figure 2 is a graphical representation of the VAR model results. The top row contains three-variable models of interest. In these models, an H-1B impulse generates a first-order enrollment response. The bottom row contains two-variable specifications that omit the intermediary enrollment response. On the left are the loan models, and on the right are the tuition models.

The figure makes the three-variable model preference clear for tuition, but some model statistics make the case stronger with respect to the loan models. In the two-variable loan VAR, the r-squared for the visa variable is less than 0.89, and the r-squared for the loan variable is less than 0.988. In the three-variable specification, the r-squared for the visa variable is greater than 0.913, and the r-squared for the loan variable is greater than 0.989. This confirms that the enrollment effect is model-improving rather than extraneous complexity.

Both three-variable models achieve significance at the 0.05 level. Both three-variable models are optimized for two lags based on the SBIC selection criterion.

As previously discussed, I prefer the Schwarz Information Criterion because these models involve small sample sizes. The loan model has a sample size of 25 over the years from 1993 to 2017. The CPI-adjusted tuition model has a sample size of 25 over the years from 1992 to 2016.

425 The loan model anticipates a temporary increase in total loans, followed by an eventual return to zero. The tuition model allows for the same, but it also indicates the potential establishment of a new normal of high real tuition prices. It does not seem to be the case that a real-world shock would result in one or the other effect. Instead, a real-world H-1B shock would be expected to cause
430 both effects. The interaction between loans and higher tuition effects is weak, as previously noted, but it is positively signed. These models understate the effects of interest if some positive interaction does obtain.

In summary, vector autoregression confirms H-1B visa issuance as a Granger-causal policy instrument. H-1B policy stimulus directly impacts enrollment and
435 has further indirect effects on aggregate student loans and the real price of tuition. The dynamic response of enrollment and other dependent variables to employer assistance impulse is insignificant.

5. Conclusions

A slowdown in enrollment occurred around the time Section 127 was created.
440 After correcting for a wide set of relevant data, the effect of Section 127 does appear to be negative on total enrollment over the period from 1992 to 2016. The within-period marginal effect of increasing Section 127 assistance is positive. Vector autoregression indicates that using this kind of assistance as a policy tool is relatively unlikely to impact enrollment in a meaningful way.

445 Analysis indicates that the H-1B policy is a relatively strong policy tool. A positive shock to the count of H-1B visas issued is associated with increases in enrollment, total loans, and the price of education. H-1B policy modification in any direction is not obviously beneficial based on these criteria alone. Legal immigration has several additional benefits that exceed the scope of this study.

450 The literature generally suggests that an increase in H-1B immigration would benefit the economy[23]. There are important distributional effects, but they appear to be desirable overall. The main effects of increased H-1B labor involve a transfer of wealth from native computer scientists to all other people.

One hypothesis in this paper was that there might be some interaction between H-1B policy and Section 127 assistance. H-1B policy specifies a college-level education as a qualifier for specialized labor. Theoretically, this could incentivize higher college participation by natives due to competitive effects. Statistical evidence in this study does not identify an important effect of this kind, but the removal of the college-level qualifier may still prove beneficial. 460 Such a move would open the door to a wider pool of talented foreign labor.

Two changes to Section 127 are also worth consideration. First, allow for the deduction of alternative education costs instead of requiring such funds to be used for college. Many employers have ceased requiring the degree in recent years. Removing the requirement that funds go toward college would reduce 465 upward price pressure on college, and it could incentivize demand for alternative credentials. Employers prefer alternative credentials for specific roles. In many cases, obtaining an alternative credential involves a focus on obtaining a specific skill. These credentials are often more affordable than traditional education and are utilized by a relatively diverse labor pool.

470 The second change would be a modification of the employer requirement. The modification would allow an individual to take a deduction for themselves or a dependent. Willis Towers Watson estimates that fewer than 10 percent of eligible employees use tuition reimbursement benefits annually[24]. Many students work full time while attending college, but many do not. Allowing an individual to take a deduction for themselves or their dependent would encourage 475 increased education among impoverished groups relative to those individuals who are already employed. Evidence indicates there exists significant social value due to crime reduction when relatively impoverished individuals obtain a college degree[25].

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