Economic Analysis of HB18-1226

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The Colorado General Assembly has proposed HB18-1226 relating to tertiary levels of education. This bill would require reviews and analyses of current undergraduate degree programs offered by the University of Colorado (CU) and Colorado State University (CSU). In the review and analysis of each degree program, the Commission on Higher Education will collect information such as: the name of the program; number of degrees awarded annually; the amount of students currently enrolled in each program; the average tuition cost for students paying in-state; costs to the institution; the projected number of new or unfilled jobs in Colorado over the next ten years relating to the degree; the employment rate and annual earnings of graduates two, five, and ten years after graduation; the federal student loan default rate, and any other information the board deems appropriate.

Once a report and analysis are completed for each program, the Commission will identify the highest-cost programs and analyze the return on investment to graduates and the institution for the top 20 percent of those high-performance programs. Similarly, they will identify the degree programs with the lowest employment and earning outcomes for graduates remaining in Colorado and analyze the return on investment for the lowest 20 percent of programs for graduates and the institution.

The argument for this bill comes with the claim that state resources should not be used to promote "inefficient undergraduate degree programs that result in poor student employment and earnings outcomes…" (HB18-1226, 3). This bill goes on to further state that these "inefficient" programs are "detrimental" for consumers of higher education and Colorado's economy.

From an economic perspective, there is no need for government intervention. The government should only interfere if the subject at hand deals with a public good, an externality, or a market failure. None of these are identifiable in this case.

First, according to Rosen and Gayer, higher education is not a public good (133). They argue that "…education is primarily a private good, improving students' welfare by enhancing their ability to learn a living…and to deal with life" (133). Next, there is no evidence of externalities resulting from higher education "…as long as the earnings of college graduates reflect their higher productivity…" (Rosen and Gayer, 134).

Finally, there is no clear market failure in state-run institutions when students choose their degree program. Students voluntarily choose to enroll in programs that fit their interests. This bill does not provide any evidence that students are being misled by institutions when they choose their degree program. Therefore, there is no reason for the government to interfere in private agreements between students and institutions.

This bill alludes to the fact that the state should not fund degree programs that do not result in sufficient returns determined by the reports. However, state contribution to CU and CSU constitutes a small fraction of their funding. The entire University of Colorado system only receives 16.4 percent ($194 million) of their funding from the state. This is not much considering that the CU Boulder campus alone has a budget of $1.69 billion for FY 2018 ("How CU Boulder is Funded," University of Colorado). Presumably, those that contribute a larger portion of funding to the institution should have more influence when deciding whether these programs are valuable. The continued enrollment of students implicitly demonstrates that they believe that these programs are worth pursuing.

The reports that HB18-1226 are trying to implement would provide very detailed, specific, and dense information that is only applicable to the state. This leaves out the performance and returns of these degree programs throughout the rest of the country that would not be analyzed by this bill. Without accounting for the effectiveness of CU or CSU degree

programs outside of the state, there would be no data showing how these programs perform outside of Colorado. Missing data on degree program performance in other states or regions of the world could undermine the quality of the programs that were reviewed. This lack of information could affect the State's decision on deciding whether a program is beneficial.

Furthermore, according to PayScale, out of more than 1,800 schools, CU's average return on investment over 20 years ranks 176, and CSU ranks 310 (PayScale). The returns on investment are representative of students' income minus the cost of their education. This shows that, on average, students attending CU or CSU do better than nearly 83 percent of the schools in PayScale's data.

Therefore, although there may be degree programs that an analysis or review deems inefficient because of low returns or low employment rates, students are able to choose from a variety of programs that would provide monetary satisfaction. There are nearly 200 different degree programs offered by CU, and 131 offered by CSU (HB18-1226 Fiscal Note, 3). All of these degrees have very different returns, salaries, and employment rates, which is outlined on PayScale's website for numerous universities ("University of Colorado-Boulder Salary," PayScale). This demonstrates that if students wish to pursue a degree with high returns, they can easily find that information.

Moreover, degree programs at state-run institutions exist separate from their monetary returns or employment rates. Students enroll in these programs based off self-interest, passion, happiness, and enjoyment. Monetary value is not the only force driving enrollment or efficiency in degree programs. If this were the case, we would see every student enrolling in programs that have a reputation for high salaries and high employment.

Additionally, in January, the University of Colorado system implemented Regent Policy 4.B.1 which aims to accomplish nearly the same thing as this bill. This Policy requires that degree program reviews are conducted annually and submitted to the Vice President for Academic Affairs. Reviews for each degree program will include the accomplishments of the program, challenges and opportunities regarding the program, goals for the future, the amount of enrollment, credit hours, and number of degrees awarded each year. These annual submissions will be collected to create an aggregate review of each program for every seven years ("APS 1019-Degree Program Review," University of Colorado).

Moreover, this bill does not explain what will happen once these reports are conducted. The furthest that this bill goes to explain what would happen to low-performing programs is that the Commission can recommend which programs be discontinued. This bill does not offer any strategy to improve the low-level programs, which would be a better alternative to eliminating a program completely. This would limit the options of degree programs for students.

While start-up costs for this system are over $300,000 there is nothing in HB18-1226 that explains why this program would be beneficial to institutions or the state (HB18-1226 Fiscal Note, 1). To make this bill more effective, an amendment should be created to describe what the Commission or state will do to enhance the low-performing programs.

In contrast, there is the possibility of a market failure in proprietary schools because their recruiting practices resemble a deceptive "sales process" (U.S. Senate Report, 4). Through undercover recordings, the United States Senate Report found that "….companies used tactics that misled prospective students with regard to the cost of the program, the availability and obligations of Federal aid, the time to complete the program, the completion rates of other

students, the job placement rate of other students, the transferability of the credit, or the reputation and accreditation of the school" (5).

The purpose of proprietary schools is to generate a profit. The United States Senate Committee on Health, Education, Labor, and Pensions (HELP) concluded that proprietary schools are "…duty-bound to demonstrate growth and profitability [for companies] with no countervailing requirement that they demonstrate high rates of student success" (U.S. Senate Report, 101).

Furthermore, the Senate Report goes on to state that for-profit schools offer poor academic quality, inefficient student services, and virtually non-existent services for career placement. The report states that "…54 percent of students who started at a for-profit college…left without a degree…" (U.S. Senate Report, 84). This shows that proprietary schools are producing a market failure which remain a bigger concern than the non-profit, state-run schools that this bill addresses. For these reasons, an amendment that focuses on the regulation of proprietary schools would increase the effectiveness of this bill.

For this type of legislation to be worthwhile it should focus on improving policy in accordance with proprietary schools. The other option would be to improve the low-performing programs that are identified from the reports, neither of which are addressed in this bill. Moreover, this legislation does not address where the market failure occurs. The costs of implementing HB18-1226 are unjustifiable when we look at what these reports are trying to accomplish and how they will benefit the state. In all, I urge you to vote against this bill unless the appropriate amendments are made.

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