

REMARKS TO THE TEXAS HIGHER EDUCATION
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Transforming Texas Higher Education: The Role of the Coordinating Board

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I wish to thank you for the invitation to speak to you today. I am an Ohio University economics professor that runs a small think tank dealing with issues relating to college affordability, productivity and efficiency, and I served on the Spellings Commission on the Future of American Higher Education.

It is very easy to come up with a list of ideas that could dramatically reduce the costs of college –the institution of a three year bachelor’s degree, a dramatic increase in the proportion of students attending lower cost community college and for-profit institutions, the mandating of ease of credit transfer between institutions, the greater use of examinations to both credential skills and to award college credit, the elimination of low enrollment high cost graduate programs, the increase of teaching loads, and the move to year round schooling are just seven ideas that probably collectively could lower costs per

student by a double digit percentage amount over time, for example, and that list is far from exhaustive.

Yet from my experience spanning a half of century in higher education, colleges are a mass of contradictions. On the one hand, through their research and teaching, they eagerly push new and innovative ideas onto society, but on the other hand they are fiercely conservative and resistant to change in the way *they* do business. For years, higher education reformers stressed the three “A” words –affordability, accessibility, and accountability. These are not bad words –to the contrary. But colleges resist doing much to become more affordable, more accessible, and more accountable. The key to breaking down that resistance, I think, is to focus on three “I” words – *information, incentives, and innovation*. And I think the focus point for reform must come from outside the institutions themselves –in part the legislative and executive branches of state governments, but also state coordinating and university governing boards.

Information

Let us elaborate by first discussing the role of information. Markets are marvelously effective in allocating resources amongst private business activities because they are conveyors of vital information. For example, when people demand more widgets than previously, widget prices tend to rise. This price

increase, in turn, conveys information to widget entrepreneurs who see opportunities for increased profits, and thus they increase production of the highly wanted product. Prices are signaling devices that help entrepreneurs discover the right price and output combinations that will both maximize their profits, but also simultaneously increase consumer welfare. Resources are constantly being efficiently reallocated as tastes, preferences and production costs change.

This is all absent in higher education. Most universities lack a profit motive to inform and condition managerial behavior. There is no “bottom line.” The output of universities is hard to define and measure and consumers are not sure if they are buying the best product available to them for the price. The information that markets convey in the market economy is largely unavailable. Even the limited information that might be useful to consumers and policymakers is partly or completely hidden.

Private information providers try to offer some guidance to consumers with their college rankings, but those rankings are constructed based on sometimes dubious criteria and often incomplete information –I know because I do the college rankings for *Forbes Magazine*. Policymakers often lack much information on the value added to students by their college training, on the

finances of each program, on professorial teaching loads, the degree of grade inflation on campus, and so forth. Do you know what the average teaching load of full professors is at UT Austin? Do you know how much more seniors know than freshman at the University of Houston? Do you know how many hours a typical student at Texas A and M University spends studying, as opposed to partying or other forms of non-academic entertainment? Do you know how many hours a year the typical classroom is utilized at the University of Texas at Arlington, and how does that compare with classroom utilization at the University of Phoenix or Kaplan University? Do you know what the typical student earns working one year or five year after graduation from North Texas State? *Did you know the avg GPA for ed psych majors at Texas A & M is 3.55, or nearly at A-, but in Econ/Physics is 2.67 or B-* Are there majors where earnings are extremely low? Are you aware that institutional subsidies of intercollegiate athletics absorb 17 percent of tuition revenues at Stephen F. Austin State and 16 percent at UT El Paso but nothing at UT Austin and barely one percent at Texas A & M? While you are no doubt smart people, you are almost certainly abysmally ignorant about a wide range of things that you should know about if you are going to intelligently guide the future direction of higher education in the Lone Star State.

Schools often fight providing transparency for a variety of reasons, including fear that exposure of some information might lower their reputation,

reduce applications for admissions, embarrass senior administrators, and so forth. When I was on the Spellings Commission, the various college trade associations mostly fought efforts to get standardized data on all schools that could be easily understood by prospective students and policy-makers alike. In particular, they resisted the idea of having a seamless record from preschool through college of each student's performance, maybe because of fears that such a record might show that some colleges add relatively little to the education of students for the amount of money charged. Yet you are not going to reform higher education if you do not know what your universities are doing and what they are spending to do it.

Incentives

But even with better information, I doubt you would get real reform the way universities operate today. Information is a necessary but not sufficient condition to true positive change. To be sure, with better information consumers might make better choices, and that might put pressures on some schools to change their ways. But usually change happens slowly, tepidly, and often is more window dressing than real substance. Good information must be combined with a changing incentive structure to make good things happen.

For the most part, people in higher education are compensated little different if they perform marvelously or if they perform poorly. With good information, we can set objective goals and measure progress at meeting them. But at a typical university, good performances may mean ^{or two} one percent more compensation increase than mediocre performance –the incentives to achieve excellence are too small to significantly impact behavior, with a few exceptions, most notably in some forms of intercollegiate athletics and in some instances, in the compensation policies of the investment managers of the university endowment.

To be sure, base salaries at the top of the administrative hierarchy have risen by healthy amounts. It is not uncommon for a flagship university to pay its president say \$700,000 a year, where a decade ago the salary would have been ^{perhaps} ~~perhaps~~ ^{350,000} \$400,000. Even adjusting for inflation, this is a very good sized increase. Yet there is little in this salary picture that provides incentives for excellent leadership, or penalties for mediocre performance. Take the \$700,000 president at a top flight university, such as UT Austin. I suspect it would be far better to pay her or him \$450,000 in base salary, with a range of possible annual bonus payments ranging from zero to \$500,000 a year, with the average bonus over a several year period being \$250,000. The total long run salary cost of this

approach would be the same as under the traditional model, but incentive payments can make presidents focus more intensely on achieving major goals, and less willing to sacrifice big goals to placate constituencies and special interest groups that disagree with the policy approach taken.

The bonus concept can be carried down the administrative hierarchy, including deans, department heads and even faculty. Regarding the latter, you should examine carefully the incentive system for both good student and faculty performance at the Acton School of Business, right here in Texas. Bonus payments should typically be potentially large enough – say 50 percent or more of base salary –to truly impact importantly on behavior. A modest number of important goals should be targeted. For example, for university presidents goals might include:

- 1) An increase in the four year graduation rate from 40 to 45 percent within three years;
- 2) An increase in the proportion of student time spent on academic pursuits relative to the time spent on recreational activities, as measured by the National Survey of Student Engagement;

- 3) An increase of 10 percent or more in the average value added to student critical thinking skills as measured by gains in scores on the Critical Learning Assessment examination;
- 4) A rise in the overall rankings on reputation on the average of the Forbes and US News rankings of colleges and universities;
- 5) A reduction in the gross and net tuition fees charged to students relative to the national average and the average of 10 peer institutions;
- 6) A reduction in the non-instructional full time equivalent staff per FTE student by 10 percent;
- 7) An increase in the number of scholarly citations per faculty member.

These goals are merely illustrative. After identifying some goals, select no more than five of them, with potential maximum bonuses for each goal equal to perhaps 20 percent of base pay, with a typical bonus payment equal to at least 10 percent. A president doing well on all five goals could easily receive a bonus equal to at least 50 percent of pay, and with an unusually stellar performance could double her pay. For lower level administrators, the bonus structure might be more modest, but still meaningful large.

Innovation

Let me comment briefly about innovation. While information is essential to sensible decision-making, and incentives are required to overcome the inertia and opposition to change characterizing most higher education, innovation should follow naturally from the other two factors. Modern technology has not reduced higher education costs. New technologies are developed but their use becomes a complement rather than a substitute for traditional methods of disseminating knowledge. Some schools have added on technology fees to pay for new computer software and hardware, whereas new ways of doing things should typically lead to cost reductions.

Savings in instruction can come about in two ways. First, old technology leads to lectures being given over and over again by the same professor. New technology finds way to replicate the presentations so that they can be used multiple times. Second, new technology can increase the number of students served. Whereas with a traditional lecture approach not dissimilar to that used 2,400 years ago by Socrates, perhaps 25 students are served each time a professor gives a lecture, with modern technology, perhaps 10,000 students can be served –the lecture is given to an average of 1,000 students in 10 locales.

Other things equal, professors prefer the traditional technology, reaching out personally to a small number of students. For that reason, universities are

slow to insist on using new distance learning forms of educational delivery.

Again, incentives can help. Professor X can be paid an extra \$5,000 to teach a course in a way that allows its repeated use over time and/or presentation over a larger space than the usual lecture hall. A blending of new technologies with some personalized instructional assistance can enhance learning outcomes and lower costs simultaneously.

Implementing Real Reform

All of this is good, but getting anyone to do anything constructive is difficult. Let us be honest: higher education costs are soaring, we have little or no idea how much students are learning in college, huge proportions of those entering college dropout, and large numbers of those attending spend more time partying than learning. Real reform will not come until colleges acquire and share vastly more information, incentivize faculty and administration, while utilizing new technologies.

Thank you.