

# Cato's Letter

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Message  
on Liberty*

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## Squeezing the Ivory Tower

**STEPHEN JOEL TRACHTENBERG**

**M**y wife, Francine, is an excellent chef. For my 50th birthday, she prepared a Chinese banquet—a meal that included several hours of dining. Dumplings, spring rolls, Peking Duck, lemon chicken with cashews, pungent shrimp with scallions—the list went on. When it was over, she basked in the glory of applause, earning five stars and multiple knives and forks from the 16 guests.

“That was some success,” I said afterwards. “What a night!”

“You think this meal was produced in one night?” Fran countered. “Weeks of designing the menu, carefully balancing taste, texture, and spices, starting with sweet and moving to savory, hitting a crescendo with the hot and coming back down to mellow in preparation for dessert. Three hours of eating was preceded by three weeks of preparation and will be followed by three days of putting back all the dishes. Cuisine is a behind-the-scenes operation.”



*Stephen Joel Trachtenberg is president emeritus and University Professor of Public Service at the George Washington University. He spoke about the mounting financial problems in higher education at a Cato Institute Conference in November.*

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When I was president of George Washington University, I heard the same refrain from senior faculty.

“What do you mean I only work six hours a week?” they would ask. “Do you know what goes into preparing a three-credit course? Weeks of syllabus preparation precede writing lectures, conducting research, grading papers, and holding office hours. What about the seven years it took to earn a doctorate? Professoring is a behind-the-scenes operation.”

Universities are labor-intensive places. On average, faculty and staff salaries comprise roughly 70 percent of the budget. I am here today to address the 1,500-pound elephant in the room by offering my proposals for beginning the financial reform of higher education. You cannot have

education? The first is to pass knowledge from generation to generation—opening young minds through deep and broad explorations of new areas in learning. Second, to create new bodies of scholarship, writing, and art, and analyze the existing repository in a refreshing manner. Finally, to help a group of young people transition to fully independent adults and become responsible civic participants. These goals must be accomplished in an economically sound fashion—without diminishing the quality of erudition, the access to enrollment, or the production of scholarly output.

Universities are managed by a system of shared governance that gives faculty members a voice in how things are designed and run. But rarely, if ever, does the institution provide them with the background necessary to understand how the organization operates. Few faculty members can look at a university’s balance sheet and comprehend the nuances of money management. And think about the scale. A major university today—one that has over 15,000 students—will likely have an operating budget approaching a billion dollars. Resource allocation isn’t simple.

To cover the costs of sabbaticals and research grants each year, approximately one-seventh of the faculty salary line is carried in the budget for time spent out of the classroom. This is a daunting discussion most times, but especially in an economic downturn. Higher education is in need of serious financial reform.

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such reform without addressing the staff and faculty’s position at these institutions. To ignore them is to behave like Congress trying to address the deficit: nickel-and-diming lots of little items and saying to the world, “We’re trying.”

What are the goals of higher edu-

About that we can all agree. It is the methodology to put in place that makes for robust lunchtime conversations.

I am going to make a modest proposal in order to allow the higher education world a 20-year breathing spell before total chaos reigns. Simply put, the goal should be to increase faculty “productivity” by 20 percent and lower the number of administrative staff by 20 percent.

I’ll begin with faculty. Today, most colleges hire junior faculty at about age 29, when they are newly minted PhDs during the blush of early promise. These scholars come up for tenure at about age 35 or 36. At that point, the university is asked to make a 40-plus-year contractual commitment. There is no mandatory retirement at universities today—a result of federal law—so the earlier tradition of teaching until age 65 is long gone. Few professors now retire before their early seventies and many remain in their positions much longer.

These “lifetime” employment contracts lock in higher-ranking, higher-earning faculty—at great expense to the institution on both a financial and programmatic level. It inhibits young blood, leaving fewer and fewer open slots for new hires. This is a tragedy on several levels. Youth tends to bring a fresh and energetic approach to each discipline. Older may be wiser, but the productivity of many faculty greatly diminishes after age 50. The more senior the faculty member, frequently the less classroom teaching they offer.

“Think of the irony. The dean says to a desirable candidate, ‘We really want you to come join us. You’ll hardly have to teach a class!’”

We therefore have an obligation to refresh the supply of scholars.

There are several creative ways to structure buyouts of senior faculty. Each relies on the fact that young faculty earn less than their senior counterparts, which allows a reduction in the latter and an increase in the supply of newly minted scholars—all with a more modest total salary line. This, in turn, nurtures a university atmosphere that is less top heavy.

Tenure, of course, isn’t the only challenge. Too many universities today aspire to become major research institutions, where it is fairly common to reward faculty members involved in serious laboratory or library work with a reduction in their teaching assignments. A lighter classroom load is increasingly seen as a right, so that almost all faculty—not just those producing research—receive reduced teaching responsibilities. Think of the irony. The dean says to a desirable candidate, “We really want you to come join us. You’ll hardly have to teach a class!” What a message.

I’d like to propose a two-tier system of equals to address the course-load problem. One flight of faculty members would teach and get re-

warded primarily by virtue of their classroom performance—and only secondarily for their research. The other group would teach less, but receive raises, promotions, and tenure based primarily upon their scholarly activity. We would, in other words, allow the best teachers to enlighten their students and put the best researchers in front of the computer to write.

Another problem in the present equation is the academic calendar. Most schools are now divided into two 14-week semesters, which leaves 24 weeks when formal teaching does not occur. The present scenario only calls for 32 classes over a four-year period.

I have long proposed changing the academic calendar to three semesters a year. By adding one semester, productivity would rise, adjunct scholars would be reduced, and students could complete their degrees in less time, translating into less overall tuition. Many details would need to be worked out—an incremental phase-in, new contracts adjusted by discipline, the possibility of faculty rotations—but the concept invites consideration.

Now let's consider the professional staff, the bloated middle class of higher education. Over the past two decades, several factors have contributed to the growth in staff positions at America's colleges and uni-

versities. Overall, it stems from what I call the Charles Dickens complex: "Please, sir, may I have some more?" asks *Oliver Twist*.

In the post 1960s world, colleges have greatly expanded the services and facilities provided to undergraduate students. This was partly in order to attract the baby boomers, who flooded the college gates dur-



ing the Johnson and Nixon administrations. But it is also a more recent response to the skyrocketing price of education. Parents respond to rising sticker prices by demanding gourmet food, a relaxing health club, and a library that is open 24 hours for their children. In fact, my non-

scientific observation is that the lower the school's ranking, the more likely the administration is to concede to the demands of parents. The Ivy League universities substitute their status for these perquisites.

As such, many universities now offer health and wellness facilities that rival spas and food that earns Michelin stars. They have outdoor basketball courts for pick-up games and student unions with bowling alleys. They provide services to help these young adults cope with the transition from home; with the difficulties of erratic behavior from roommates; with advice on how to study, write a resumé, and find a job. All of which has led to a bloating in the number of professional staff

over the last 25 years.

Not all of these services are directly related to student support. There has been a significant expansion in development, public affairs, and regulation. Hundreds of people now raise annual funds; dozens write press releases, build websites, and respond to the media. What used to be a small office with a dean of admissions has morphed into a mega-conglomerate containing the largest component of administrators on campus. Over the decades, universities have also been the beneficiaries of a series of unfunded federal mandates—required services that measure everything from how many minorities are hired, to the reporting of crimes, to how long it takes athletes to graduate. Needless to say, each requires a compliance officer—not to mention a compliance office.

Simply put, the ranks of professional staff are proliferating in these ever-expanding areas of university life. The simplest way to address this is to set as a goal a reduction in the sheer number of staff by 20 percent.

Before ending, it is worth mentioning that while I have focused on those internal considerations involving faculty and staff, these are not the only factors that need scrutiny. Consider, for instance, the issue of external validation. Who is the most influential person today in higher education? In my opinion, it is Bob Morse. Who is that, you ask? He is the director of data research

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for *U.S. News & World Report*, where he develops the methodologies for the “Best Colleges and Graduate Schools” annual rankings—and acknowledging him as the controller of one of the most dominant forces in our industry would not be an overstatement.

To an unsound degree, universities too often allow themselves to be bullied by ratings in order to be considered first-rate. I cannot overstate the point that rankings drive universities to do financially unsound things under the belief that, if their position improves, manna will fall from heaven. Universities will not embrace reform in their financial model until one of two things happen: several campuses shut down under financial distress or *U.S. News* changes their rankings.

Neither is likely to happen. There will be no run of bankruptcies across campuses. Bob Morse is not retiring to Hawaii any time soon. But if we consider the above modest suggestions—increasing faculty productivity and reducing the number of staff—the financial stress on higher education will be considerably mitigated. ■



## *Cato Scholar Profile:* **MICHAEL F. CANNON**

MICHAEL CANNON is the Cato Institute's director of health policy studies. He previously served as a domestic policy analyst for the U.S. Senate Republican Policy Committee under chairman Larry E. Craig, where he advised the Senate leadership on health, education, labor, welfare, and the Second Amendment. Cannon is coauthor of *Healthy Competition: What's Holding Back Health Care and How to Free It*. He holds master's degrees in economics (MA) and in law & economics (JM) from George Mason University.

### **You recently wrote in the *Wall Street Journal* that “the [individual] mandate’s greatest pretense is the idea that it promotes personal responsibility.” What do you mean by this?**

When someone doesn't pay her hospital bill, the hospital can take her to court. That's how government should (and does) promote personal responsibility in health care. An individual mandate forces people who are not destined to rack up large medical bills to pay other people's bills. That isn't personal responsibility; it's cost-shifting.

Worse, the very purpose of the mandate is to let its supporters avoid the costs of their decisions. Obamacare imposed government price controls on health insurance, the sort that typically cause insurance markets to collapse. Supporters could have taken responsibility for destabilizing the market, perhaps by personally subsidizing some people's premiums. Instead, they imposed a mandate that forces others to pay—in money and in freedom—to fix a problem they created.

I defy you to find a more brazen example of personal irresponsibility.

### **You've also said that with a population sharply divided over what health insurance should include, Obamacare “becomes an altar for sacrificing individual rights.” How so?**

Any time government forces people to conform to a single standard, it denies individuals the right to make their own decisions. Obamacare demands so much conformity that it doesn't stop at violating economic freedom. It violates freedom of religion, too.

Believers express and fulfill some of their most important religious duties through their

medical decisions, because health care deals with the beginning and the end of life. It's no coincidence that the most inflammatory aspects of this debate have been death panels, taxpayer funding of abortions, and the contraceptives mandate.

Opponents of the contraceptives mandate want nothing more than the freedom not to purchase something they consider immoral. I heard Jon Stewart say, essentially, “Too bad. Government makes everyone pay for stuff they don't want.” He's right, but I wonder if he realizes he's embracing the morality of “an eye for an eye.”

### **What is the relevance of the term “medical necessity” to this debate?**

People speak of “medical necessity” as if there were some objective standard of what each patient needs. They then use the phrase as a club against anyone who disagrees with their standard.

There is simply no way to define medical necessity other than to say the expected health improvement from a medical service is worth the monetary cost plus any risk of harm. These are inherently subjective value judgments, and therefore best left to individuals who are spending their own money. We'll have a lot less fighting if patients can choose health plans that reflect their values.

Again, when government imposes a uniform definition of medical necessity, everyone loses a measure of freedom. And when government subsidizes health care, it leads patients to decide that some medical services are “necessary” even though they would not pay for them if it were their money on the line. ■

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# The Estate Tax Roller Coaster Ride



**B**y now, you've probably grown accustomed to the fact that we still have an estate tax. If you tend to follow the estate tax debate, you may recall its one-year repeal in 2010—and its reinstatement, in 2011, with a maximum rate of 35 percent and a \$5 million per person exemption. Congress arrived at these rates/exemptions in a last-minute deal in December 2010.

But you may not have focused on the fact that the great estate-tax roller coaster is about to rev up one more time. That 11th hour deal—with its relatively generous \$5 million exemption and 35 percent maximum rate—is “good” for two years only, 2011 and 2012. What happens when 2013 rolls around in a few months? Unless Congress intervenes, estate tax rates and exemptions are scheduled to be reinstated at punitive 2001 levels—that is, rates as high as 55 percent with a mere \$1 million exemption.

During the balance of 2012, Congress *could* enact legislation that keeps rates and exemptions stable. Although hope springs eternal, the probability of a 2012 congressional fix seems remote. After all, Congress has had difficulty keeping the government funded and has flubbed the opportunity to reach any agreement on runaway spending.

In the opening months of 2013 a compromise may be possible, and that compromise may be made retroactive to the beginning of 2013. The nature of any compromise—whether high, low, or no estate taxes—will heavily de-

pend on the outcome of the November 2012 elections. Cato's scholars have consistently argued for a complete repeal of the estate tax, commonly referred to as the “death tax,” noting that the tax is typically imposed on the accumulated earnings and savings from a lifetime and, therefore, tends to tax—for a second or even a third time—assets that were already subjected to income and/or capital gains tax during a person's life.

Although it is difficult to predict exactly how it will all turn out, one thing is pretty certain: the rates and exemption levels of 2012 are likely to be different in 2013. Since rates and exemptions are fundamental drivers of estate planning, you may wish to consult with your financial advisers in this time of uncertainty and make sure that you have an estate plan that works with the fluctuating state of the law.

Tolerating this kind of legislative uncertainty is a dereliction of duty on the part of our legislators—making it difficult, sometimes impossible, for citizens to plan their business and family affairs. In order to protect yourself and your family, try to stay abreast of the changes as they happen. And we can all hope that, one day, Congress will take the advice of Cato's scholars and repeal the estate tax.

If you would like to discuss estate planning or gifting ideas, please feel free to contact **Gayllis Ward**, our director of planned giving, at [gward@cato.org](mailto:gward@cato.org) or at (202) 218-4631. ■



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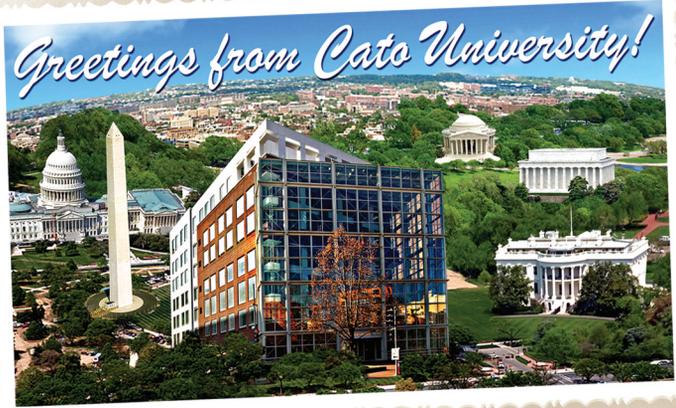
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