

\$20 McDonald's Hamburgers, LEED-ing By Following and How Agency Problems Inhibit the Progress of Higher Learning

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In September 2011 my university proudly unveiled their latest green investment in campus infrastructure – the “Solar-Dok” picnic table/charging station.



Had such an investment cost a mere \$500 one might chalk-up the cluttered design, inconvenient location, questionable aesthetics and famously warm and sunny Rochester weather as just another strange expenditure on campus – particularly if the bench came with the message, “We know it’s silly, but we think it’s a neat way to demonstrate what the future may look like.”

If only.

The table cost \$11,500. Under unreasonably optimistic assumptions it has the potential to save \$90 per year in electricity costs and \$9 per year in damages to the earth from the CO₂ it may prevent from being emitted. Aside from being a table that gets virtually no use, it is a terrible economic investment and an even worse environmental investment.¹ It remains prominently featured on the college’s website and proudly sports the campus

symbol of smart sustainability:  .

When queried about whether they were aware of the table’s bad economic prospects and non-“green”ness, college administrators indicated that no such calculations were even attempted, nor that they much cared – it was an important *symbol and message*. When queried about how the decision to make this *particular* investment was made (using other people’s money) it was revealed that, “a few students wanted it,” and “that’s what our competitors are doing.” When queried if there was a plan in place to evaluate whether the table met *any* of its symbolic and other objectives – such as recruiting talented students, raising funds, etc. – it was revealed that no plans were in place.

I can think of no better illustration of the agency problem that cripples American higher education and public policy writ large. It’s only a few dollars, what’s the big deal? Surely there’s no harm in demonstrating to students and stakeholders that paying little attention to costs is OK. Surely there’s no harm in conveying the message that it’s OK to be careless with other people’s money. Surely there’s no harm in spending money to convey messages. And after all, it’s still *only* \$11,500.

¹ Here is additional information on the Solar-Dok.
<http://theunbrokenwindow.com/2011/11/02/dis-tainability/>

Well, there's no harm to *university administrators*. There's little incentive for administrators *not to* engage in these activities. Think of the problem we have with experts making predictions, particularly of the Malthusian variety. Experts gain great acclaim, fame and income (perhaps) by writing books and articles proclaiming the "world will end." Often these proclamations are vague and indefinite so that it is difficult to assess the future accuracy of such claims. Acting on these fears can impose great costs to others – either in the form of fear or in the form of tangibly bad public policy in response to it.² But there is virtually no way to make these forecasters feel the costs of their erroneous predictions. We have a case of clear immediate benefits to making forecasts and dispersed and unclear costs – so we are fated to live with "too many" expert forecasts.

University administrators serve many masters – and green elephants satisfy nearly all of them. Environmentally conscious students see their needs being met. Other administrators see that "we are doing something." Alumni and public officials can brag about the green leadership on campus. Faculty can use the projects as teaching tools. These are all immediate gains – and these gains are enjoyed regardless of how successful or unsuccessful the underlying project ultimately is. If \$11,500 is wasted, that waste is going to be felt equally by 20,000 employees and 8,000 students and their parents (and taxpayers).

If only it was \$11,500 we were talking about. At the same time as our university installed the Solar-Dok, it broke ground on a new student dormitory.³ This time the stakes are a little bit higher – the dorm is slated to cost \$17 million. How is this relevant, don't we need to build dorms to house students? Yes, but we've decided that this building would be built to "LEED Gold" standards – i.e. it's going to be a "green" building. To make a building certifiably green requires additional planning and construction expenses. The planning costs include the increased costs to design, commission, document and energy model to meet LEED requirements.

Estimates of these costs are evasive – one report indicates that they range from 1.5 percent to three percent of the costs of construction.⁴ For example, a Natural Capital center in Portland is estimated to have spent 3.2 percent of its \$10 million in construction costs on extra LEED planning.

Building green also requires a change in the way buildings are constructed and a change in the materials used. Additional expenses include additional site preparation work, different HVAC systems, different lighting systems, different roofing systems, different materials, and different places to store materials from as compared to building conventionally. Estimates of added construction costs are in the three percent to eight

² Recall the synfuels fiasco in response to fears of running out of oil in the 1970s, or perhaps more spectacularly the history of US acquisition of strategic metals and minerals over similar (unfounded) fears.

³ <http://www.rochester.edu/news/show.php?id=3910>

⁴ http://www.cleanair-coolplanet.org/for_communities/LEED_links/AnalyzingtheCostofLEED.pdf

percent range. For example the construction of a Steelcase furniture manufacturing plant in Michigan to LEED Silver standards is estimated to have added three percent to its construction costs. More complex facilities built to higher standards would likely cost more.

Taking a moderate range from the two cost estimates (six percent of total costs) then building our new dorm to LEED Gold standards is probably going to add about \$1 million to the costs of the dorm. Is spending an extra million dollars to construct the building going to deliver the promised energy and other cost savings? If so, how much? Is spending an extra million dollars to construct the building going to deliver the promised environmental benefits? At what cost? It's not been easy to obtain answers to such questions.

If only it were \$1 million we were talking about. In the 2008-09 academic year, private and public four-year colleges spent over \$365 billion, roughly a 100% increase in real spending over a two-decade period.⁵ How much of this spending is a result of delivering a better product? Is the building of extra-classroom space to accommodate peak class demand times on Tuesday and Thursday afternoons a sensible thing to do? Is that better policy than making better use of an already underutilized capital-stock at off-peak hours? Is expanding the funding for student (non-academic) groups on campus a sensible thing to do? Should the club hockey team be turned into a Division I sport?

Find me a person among a typical university's stakeholders who will preemptively engage in detailed cost-benefit calculations, or who will follow-up five years after they are implemented to demand accountability for them, and I will find you someone who seeks pain for pleasure. But the question here is moot because the feedback mechanisms that provide the carrots and sticks to agents operating in other institutions are muted, distorted or non-existent in higher education.⁶

The feedback problem does not confine itself to spending issues. The academic side of the enterprise suffers too. My department is a rather successful one but nonetheless illustrates issues that are pervasive on college campuses. For example, three-and-a-half years and 2,400 students into my career at my University and our department has not once had a discussion about what goals we have for our undergraduates, whether our current teaching is producing the outcomes we want, whether the course offerings are appropriate, where our majors end up after graduating and whether we can be doing work outside the classroom to enrich the undergraduate experience. Three quick stories will illustrate. Our major is the largest at the University and students are clamoring for more exposure to research, policy and the professional side of economics. Despite the focus of economics graduate programs and the economics labor market on students with good research skills we have at best an ad hoc approach to having undergraduates engage in a research project outside of their basic econometrics coursework. Second, a centrally located 500 square foot lounge in our department remains a repository of empty desks,

⁵ http://nces.ed.gov/programs/digest/d10/tables_3.asp#Ch3aSub8

⁶ Here is one review of how agency problems lead to cost problems in higher education. <http://www.popecenter.org/acrobat/revenue-to-cost-spiral.pdf>

boxes and files even as our economics student groups struggle to find meeting space, our armies of teaching assistants struggle to find places to conduct reviews and meet students, and few informal locations exist on campus for economics students to assemble, study, peruse papers and journals and otherwise gather and share information. Third, and certainly not last, is that we have just discovered that our department has ownership of endowed accounts set up years ago by dedicated alumni to improve the undergraduate experience. One such account is funded well into the five-figures and was intended to provide funds to bring a prominent speaker to campus each year solely for the benefit of our undergraduates. The account, untapped for years, was discovered by me only upon the cleaning out of the file drawer of a retiring assistant.

Our department, like universities as a whole, has long lines of interested students – so long as funds flow for serving these students, the incentives to do better simply are not there. Indeed, to do so would be foolish. Aside from the socialization of the costs of poor decisions why should you not be surprised to hear these stories and why might you expect them to be manifest throughout the higher education system?

Nonprofit Status

It may not be reasonable to organize higher education on a for-profit basis, but this does not mean that it is immune from the problems that plague typical non-profits. Non-profits have many “owners.” It is unlikely that the interests of parents, students, alumni, faculty, local communities, competitors, employers, vendors, and politicians are in harmony, and it is asking a lot of a board of directors to align these many interests, particularly when they have interests of their own. For-profit stakeholders surely have myriad interests, but the lure of profits and deterrent of losses is powerful glue that binds them together. Absent such glue, are things like clear and forceful mission statements sufficient to bind the decisions of the various stake-holders together? The problem becomes particularly “sticky” when it’s not clear that desirable outcomes (even if we could all agree on what they were) are even measurable.⁷

Universities are aware of this of course. Two common “solutions” end up amplifying rather than mitigating agency problems.⁸ First, in an effort to maximize *something* schools focus on burnishing their reputations –inherently unmeasurable and which depends crucially on how others perceive you. Second, many groups are given a “seat at the table” in crafting important decisions.

Accreditation and Benchmarking

Paradoxically, working on your reputation promotes actions that degrade the reputation of the system as a whole. When our peers invest in green elephants, so too do we because

⁷ It’s much the same problem US Forest Service Administrators face when acting without the signal and stick of profits and losses about how to manage land for recreation purposes, conservation purposes, timber harvesting, cattle grazing or some combination. We end up in a situation where no users are happy, the Forest Service loses money and there’s little impetus for change.

⁸ I put “solutions” in scare quotes because these things emerge themselves.

“all schools like us have a Solar-Dok.” When our peers move to a more open curriculum so too do we. When our peers inflate grades, so too do we. In an effort to make sure we are doing what our peers are doing to sustain our reputation, we also ensure that when one does something poorly, that all do something poorly. Furthermore, in the zero-sum game to “be the best” among our peers, we are drawn into the trap of facilities arms races, athletic program arms races, mission creep arms races, administrative overhead arms races and more. But there can only be five schools in the top five, and this remains true whether we all have climbing walls in our athletic facilities or not. In all of these cases, the *effort* is all that matters. Indeed, there is comfort in doing “what all good schools do” without having to evaluate whether such programs make schools good.

Comfort is not the only thing that is abetted by benchmarking. Huge sums of federal financial aid and the very legitimacy of the degrees granted are determined by your peers via the licensing or accreditation process. For example our university is accredited by the Middle States Commission on Higher Education. This means that Adelphi, Hofstra, St. Johns and Seton Hall, each private competitors for students we get from the New York metropolitan area, and Penn State, a major public research university that is an attractive alternative to our 400+ students from Pennsylvania each have a say in whether we remain accredited. How would such institutions view proposed research programs and curriculum changes that are risky, innovative, out-of-the-box and that stand to diminish their stature and attractiveness if we implemented it successfully? Similarly, how would such institutions feel about suggesting that some of our investments in green elephants are not cost-effective, or that more co-curricular learning may not produce better learning outcomes if they understand that we, too, have a seat at their accreditation table? In accreditation perverse incentives both stifle educational innovation and promote wasteful arms races. Americans would be uncomfortable if the major agri-businesses were responsible for ascertaining what foods were healthy and safe, as they would be concerned with investment banks determining the quality and safety of financial instruments, yet few seem to understand that we see exactly this in the higher education sector. Accreditation agencies as currently constituted are not well situated to focus on the quality of student educational outcomes.

When outputs are hard to measure, and when accountability is hard to enforce, there is great protection in, “everyone else is doing it.” In these settings vagueness becomes attractive. With clear, well-defined objectives, university agents set themselves up to be hurt. So it is not surprising that universities take efforts to be “more sustainable,” or engage in multi-year plans to “better communicate” with the local community, or to be “sensitive to the needs of the many stakeholders in our university.” In each case the mere effort is what is seen as evidence of progress and any failures to achieve goals can easily be deflected by arguing that “there is a tough balancing act.”

Cooks in the Kitchen

A stew that mixes many stakeholders with no clear feedback structure is going to be bland and expensive. With vagueness preferred over precision, and with important decisions made by many stakeholders, none typically having sole authority to move an agenda, building consensus and serving a lowest common denominator is a likely

outcome – after all, that’s the easy way to build universal support for programs.⁹ Few people find major objections with demonstrative green elephant spending. Few people object to having more competitive tennis teams. The same is not true of eliminating majors, pricing class-times and courses variably, or raising teaching loads. In a bureaucratic environment, many people are conditioned and empowered to say “no” particularly when there’s not a clear mechanism to reward them for a good outcome and when current sacrifice is virtually assured. Who has the incentive to swim upstream, say “yes” and be a true leader? With whom does the buck stop?¹⁰ The policies that move must appeal to the most people – so colleges are inclined to make “fast-food hamburgers” that probably appeal to few foodies, but at a cost of \$20 apiece.

When feedback loops (and hard currency!) are missing, collegiality emerges as a currency of choice on campus. Collegiality is merely college-speak for being “on-board.” Questioning the status-quo is non-collegial and threatening. How can one “collegially” raise questions about the sensibility of green elephant projects or the direction of the college’s educational mission? Paradoxically, the removal of monetary incentives only increases the suspicions in the tribe regarding *other reasons* why someone would ever raise questions about such things. If one wishes to remain in the good graces of their campus colleagues, it is not at all in your interest to ask hard questions.¹¹ This is not a complaint. Indeed, staff and faculty and administrator salaries are probably a little lower than they would otherwise have to be in off-campus positions. University stakeholders enjoy the collegiality, the freedom, the variability, the nice campus, etc. and as such their compensation reflects these benefits. Asking for a less-collegial atmosphere or a more challenging atmosphere to emerge is like asking for everyone to spontaneously agree to a pay cut. It’s unlikely.

What kinds of cooks are likely to be in the higher education kitchen? In market settings inefficiencies provide an impetus for an entrepreneur to improve outcomes – in other words, inefficiencies attract innovators. Quite the opposite seems possible in higher education. Ethan Fosse and colleagues provide evidence that the political climate on campus is self-reinforcing.¹² With the academy having a reputation for promulgating a particular “-ism” individuals attracted to this “-ism” are more likely to pursue graduate

⁹ Especially when third parties pay a large portion of the bill.

¹⁰ If the bucks stops on the academic side one might expect it to be with senior tenured faculty. While the tenure system exists in part to ensure innovation on campus, it remains a very open question whether the most innovative and cutting edge research takes place on college campuses. Dr. Semmelweis, I suspect, would be as much of a pariah today as he was in the mid-19th century. This may be due as much to where our funding comes from as well as the reinforcement problem I address later.

¹¹ It goes beyond asking hard questions. I was once reprimanded for offering to teach an extra course for no pay because, “It sets a bad example.”

¹² Ethan Fosse, Jeremy Freese and Neil Gross, 2011. “Political Liberalism And Graduate School Attendance: A Longitudinal Analysis,”

http://www.soci.ubc.ca/fileadmin/template/main/images/departments/soci/faculty/gross/fosse_freese_gross_2_25.pdf

degrees and more likely to pursue careers in the academy. There's no reason to suspect the same self-reinforcing mechanism does not also apply to "collegiality" and other progress inhibiting characteristics that are common on campuses. Along with the accreditation issue, this compositional problem suggests that if change is going to come in higher education it is going to have to come from without.

Not All Emergent Orders are "Good"

Hayek correctly implied in *The Fatal Conceit* that not all emerged orders are "good" in the sense that they are generally desirable. I urge critics of higher education to avoid the temptation of painting the problems in higher education with the broad brush that they are the result of conscious policy choices and conspiracies. This seems to me to be wrong both theoretically and empirically plus I'd suggest it's an uncharitable way to encourage people to be more welcoming of change. Almost every department chair, college staff member, college administrator and trustee that I have ever met has been extremely thoughtful and proud to be a part of their university even if they seem to be resistant to dramatic changes.

However, when muted feedback mechanisms interact with the multiple stakeholders, opaque output and with the accreditation process, no amount of good intention can save universities from inefficiency and resisting change. Hayek offers us yet another lesson here, a sobering one perhaps. In the *Road to Serfdom* and in subsequent work, Hayek agonized that people thought he was overreacting to the dangers of planning and government control in the US and the UK. Why? Because "we" are not "them." In other words, the US and UK can get away with the problems inflicted by planning because of their good history. But Hayek's response to these criticisms (he was marginalized after writing them) was that government control can and does produce a change in the *psychology* of a people and that the political ideals of a people and their attitude toward authority are endogenously determined – as much the *effect* as the cause of the political order within which it operates. The dramatic changes in American family structure since the birth of Great Society reforms is perhaps the best illustration of Hayek's concern. By suggesting that the problems which burden our higher education sector are the result of emergent processes is not to suggest to that we ought not worry about them, or that we are powerless to intervene. But I am here to suggest that asking actors from within the sector to make dramatic changes is akin to asking them to take a large "pay" cut, and despite the preponderance of people in the academy promoting the virtues of altruism, I am not optimistic about many people taking up the plow.