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Finding Peace for Economists in Universities

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Evidence suggests that economists and agricultural economists have an unusual ability to create anxiety for university upper administrators. Interviews with university provosts and deans revealed support for faculty conducting relevant policy analysis, and discomfort with economists' participation in internal university decision making. The conflict is addressed by considering the nature of the decision environment, specification of decision variables, and the demand for policy evaluation to inform economists how they might contribute their expertise in a peaceful and effective manner. Economists can help central administrators, as policy makers, to establish systems of incentives, success metrics, and divisions of authority which match the locus of specialized knowledge.

Key words: demand for policy analysis, public policy, university decision making

Introduction

> *"He that would live in peace and at ease, must not speak all he knows, nor judge all he sees."*
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> — Benjamin Franklin

Evidence suggests that economists and agricultural economists have an unusual ability to create anxiety for university upper administrators. When asked to address this issue from the vantage point of a university dean, I assumed I would be discussing the discomfort of external interest groups complaining to administrators about policy and economic reports which provided evidence contrary to industry positions. This occurs with some frequency. I was prepared to formulate an address reinforcing the notion of the responsibility of scientists to be true to their disciplines, while keeping university administrators apprised of potentially controversial findings so they would not be blindsided by public criticism.

However, interviews with a small sample of university provosts and deans revealed that, while analysis of policy alternatives on issues external to the university does result in periodic public outcry, all higher administrators interviewed supported the necessity of university faculty conducting relevant policy analysis and reporting results publicly within the scope of the "truth, the whole truth, and nothing but the truth." Agricultural economists are rooted in their protection of academic freedom from the early lesson provided by T. W. Schultz in his defense of publication of the 1943 oleo-margarine paper

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by a member of his faculty at Iowa State College (Johnson, undated).[1] In fact, in my 25 years as a university administrator at various levels, I have been involved in many public challenges to university study results and have never seen a university administrator waver for long in defense of faculty providing credible scientific analysis of science or policy.

The higher university administrators interviewed identified their discomfort with economists and agricultural economists as emanating from their participation in internal university policy decision making. Each of the administrators interviewed first noted that their economists and agricultural economists were professionally productive, and contributed to good teaching, scholarship, and grant acquisition. But each administrator was similarly irritated by their interactions with economists who involved themselves in university policy issues. Several direct comments are reiterated here:

- "During an external departmental review, faculty comments provided clear evidence of misunderstandings of the realm of university decisions versus college decisions; there were misunderstandings of university policies and how they impacted the departments."
- "There are negative faculty reactions about the provost's actions and negative reactions about university priorities."
- "There is a prevalent view in economics departments that economists have a universal understanding of how societies work, that their views should be adopted—this is hubris and arrogance; there are more factors motivating human decisions than just market forces."
- "Economists have an extreme desire for budgetary information; they do what they are trained to do: evaluate data. But they deal with social situations with economic analysis, evaluate complex decisions with simple models, maintain a rigid set of principles, and make it difficult to get things done."
- "Economists should understand policy context, but they often lose sight of the long run and the short-run effects on the long run; they tend to go to the mat on campus causes with great amounts of energy and emotion in support of their own short-term self-interest and remain uncompromising on small things, missing the longer-term view."

In his 2006 Western Agricultural Economics Association presidential address, Gary Brester attributes this irritation to the application of analytical thought: "... one of the side effects of analytical thought processes and disciplinary rigor is the impression that economists are 'uncooperative' or 'difficult to get along with.' Such claims are often made by administrators and non-economist colleagues" (p. 456). However, the discussion of internal university policy is not as simple as the dichotomy of economists using analytical thought and higher administrators not using analytical thought.

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[1] The paper of controversy was Oswald H. Brownlee's "Putting Dairying on a Wartime Footing," pamphlet no. 5 in a 1943 series entitled *Wartime Farm and Food Policy*. Theodore W. Schultz was Head of the Department of Economics at Iowa State College at the time, defending the right of Professor Brownlee to publish his analysis.

The purpose of this paper is to explore the internal university policy-making environment, its multi-dimensional decision variables, and varying demand for science-based analysis, to inform economists how they might contribute their expertise in a peaceful and effective manner. Addressing the conflict requires consideration of the nature of the decision environment, specification of appropriate decision variables, and the demand for policy evaluation. In the spirit of good family therapy, the focus will be on how economists might modify their behavior rather than expecting the behavior of others to change. There is risk in discussing a topic "so close to home." Usually academic economists are third-party observers of the actions of others. Discussing action within our own institutions, where outcomes are felt personally, makes it difficult to maintain a dispassionate, observational stance.

Public universities are institutions established to fulfill public policy goals, especially building human capital for economic development and effective citizenship, creation and reassembly of knowledge to improve the "state of the art" in various fields, and the fostering of general progress. I am fond of saying that the land grant university system resulted from recognition by the federal government, in the nineteenth century, that education is a cornerstone of economic development and essential for nation building. Officials in public universities are public policy makers when they make policy and management decisions affecting the implementation of public educational missions.

In the remainder of the paper I draw heavily on the works of Hayek (1945), Batie (2005), and Vatn and Bromley (1994), all of whom describe the importance of the social context for public policy decision making, with the first applied to all markets and the latter two to environmental policies. These same elements can be applied to the complexity of the university policy decision environment into which all contributing analysts and critics stray. A peaceful response to participation will depend on the value of the analysis as perceived by the intended consumer (the administrator).[2]

Decentralized Authority

Friedrich Hayek (1945) makes a case for distributed decision authority based upon the implausibility that any one central authority can possess complete knowledge of production possibilities, consumer utilities, and specific circumstances of time and place. Hayek suggests a decentralized decision environment, in which actors are given decision authority in areas where they have the most specific knowledge:

> We need decentralization because only thus can we insure that the knowledge of the particular circumstances of time and place will be promptly used. But the 'man on the spot' cannot decide solely on the basis of his limited but intimate knowledge of the facts of his immediate surroundings. There still remains the problem of communicating to him such further information as he needs to fit his decisions into the whole pattern of changes of the larger economic system (pp. 524–525).

From this construction, Hayek argues the possibility that many individual responses to change can move toward a satisfactory system result because each actor need not understand the interactions of the whole, but merely respond to price signals reflecting

[2] Bruce Beattie (2006) also provides experienced wisdom on roles, relationships, and communication between university faculty and administrators.

the changes of many in response to a marginal change in an input or product market, i.e., "the most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action" (pp. 526–527). This is the "marvel" of the price system which Hayek describes.

Hayek's insight adds to the discussion of the decision environment within university institutions. First, no one, neither central university administrator nor individual faculty, have all of the data relevant to effective decisions. Second, in the Austrian tradition, this lack of knowledge makes comparative equilibrium analysis a useful logical construct, though insufficient to deal with the "social process" of decision making. Third, he describes the strength of an atomistic, decentralized decision process when prices are available to guide decisions, where prices reflect the knowledge and responses of all relevant actors. It is the latter element which is not transparent within a public university environment, i.e., the presence of clear "prices" to guide decisions.

Gable and Ellig (1993) have developed a "market-based management" system on the precepts of Hayek and others. I had all of my department heads trained in "market-based management" at Kansas State University. This system of industrial management operates on three key principles: (*a*) "discovering organizational structures, responsibilities, values, and incentives that motivate people to advance a common mission"; (*b*) replacing centralized management with a management system "to divide up decision making, so that the person or team with the requisite knowledge and the right incentives makes each decision and bears ongoing responsibility for the outcome"; and (*c*) promoting "cooperation while channeling competition into activities that actually promote the common mission" (pp. 12–13). This management model can be summarized as a decentralized system with a string of responsibility of the actors up through the management hierarchy to fulfill the organization's mission in a coordinated fashion.

Most universities operate with significantly decentralized authorities. Examples include teaching, research, and extension program content, reinforced with the institution of academic freedom, continual reallocation of base budgets to permit college and departmental purchasing decisions related to programs, and distribution of a portion of indirect cost recovery to departments allowing local decisions on equipment maintenance and replacement and laboratory renovations. Placing the decisions of faculty and staff hires, reappointments, and promotion and tenure largely at the discretion of departmental faculty also represents decentralized authorities for decisions to be made by those with the greatest knowledge of the discipline. Again, in 25 years of service as a university administrator, I have never witnessed a dean, provost, or president override the decision of a faculty on a promotion or tenure case of a strong candidate (although this has occurred in a few marginal cases). In these instances of purchasing and personnel, faculty and department heads possess considerable knowledge of prices and opportunity costs for program materials and the professional labor market, and usually decision authority is placed where this knowledge resides.

The Public Policy Decision Environment

Vatn and Bromley (1994) describe difficulties in applying economic analysis based on prices when leaping to the public policy arena. One problem is that in public decisions, preferences for multiple objectives are represented by a value weight vector corresponding to an attribute quantity vector for the impact of each decision. The

calculation process breaks down for three reasons—the problems of cognition, incongruity, and composition. The *cognition problem* represents the difficulty of observing and weighting attributes of a decision. Sometimes it is difficult to describe a vector of quantitative attributes which is agreed upon by a number of evaluators. Valuing attributes across different measurement scales is challenging. Inexperienced evaluators may have difficulty in turning disparate attributes into either monetized values, or some other single metric, for comparison across projects. The *incongruity problem* involves moral imperatives, rights, and commitments which some actors simply believe to be resolute and are assumed to be property rights, implying nearly infinite value. The *composition problem* occurs when some of the attributes are divisible "commodity" elements and other attributes are not; e.g., in environmental cases there are commodities with use value and other attributes with existence value (all or none).

Land grant universities exist as public institutions such that internal decisions and external relations are part of public policy making. Legislatures, governing boards, alumni, students, and faculty and staff all participate in the establishment of the university's mission and priorities. Mission and priorities are value-laden. Land grant universities have a traditional imperative to support a competitive agricultural industry with efficient production practices and socially acceptable utilization of natural resources and animals. Since the 1950s, land grant universities have expanded into comprehensive institutions to fulfill the breadth of the land grant vision, with values for balanced promotion of the arts and humanities, the natural sciences, and the social sciences. The alumni and students value competitive athletic teams and opportunities to return to campus to relive their college days. Social responsibilities for diversity, gender equity, access to education, public health, immigration enforcement, and national security are added values and commitments affecting the university decision calculus. Athletic conferences determine a minimum number of sports for membership and Title IX requires equal opportunities for men and women in scholarship sports. This multi-dimensional set of values, of which central administrators are reminded weekly, in combination with increasingly severe revenue constraints, establishes the policy decision environment of the university administrator.

One role economists can play in university discussions is to work with administrators within the scope of university-wide decision making to understand how to construct relevant attribute and value measurement data for decisions. This process includes articulation of individual objectives, identification of university production functions, and description of opportunity costs of each action. For example, when selecting which building to construct next, one might develop a pricing model of student credit hours generated per square foot if the state authority makes revenues variable based upon student credit hours, or a model based upon grant dollars generated per square foot if the university captures a portion of indirect cost recovery on grants, or a more vague model of public goods value generated per square foot if teaching, applied research, and outreach are to address clientele demands for knowledge. Other values to consider in identifying the relevant evaluation criteria might include space needs for new programs meeting emerging occupational opportunities or emerging areas of science, economic development, and incidence of costs associated with using or servicing a new facility.

Vatn and Bromley (1994) also note that there are multiple contexts of valuation. In particular, (*a*) the context of choice influences individuals' preferences, and (*b*) the context of choice scales or weighs individual values in the course of deriving a coherent measure (price or value) across individuals. Social context shapes individual values. For

example, "norms" enable and constrain individual valuation as a matter of mediating potential conflicts. Social context also determines whose interests are to count in the decision process and to what extent. There may be an entitlement structure—if something is a right, opportunity cost may not be measurable. Vatn and Bromley note, "Coherent collective choice cannot be made on the basis of some simple aggregation of individual preferences alone" (p. 142). Collective discussion is needed to arrive at good choices. "Just as *preferences* count for consumer choice within constraints, *judgments* can be used as the driving concept for citizens choosing basic norms or modifying existing constraints" (p. 142). Omitting consideration of the myriad of elements within the social context of collective university decisions will result in misspecified decision models and biased results. If one cannot prove that all information relevant to a decision is captured in the valuation measures of analysis, then "hypothetical valuation studies carry no more normative significance than do competing claims expressed by self-proclaimed interest groups on either side of any particular decision" (p. 144).

Universities have structures to encourage collective discussion to aid administrators in forming judgments and making decisions. Administrators assemble numerous committees and work through structures of shared governance. Used well, committees and faculty senates provide a means to collect representative views from various perspectives, from various specialized interests and knowledge, in search of common sets of attributes, costs, and values associated with decisions. However, collective discussion is costly. Faculty loathe committees and planning efforts, and it is very difficult to entice faculty to take faculty council seats to which they have become elected. But, constructive participation, in the presence of open-minded administrators, is a role all faculty and staff can play to reach university decisions which will meet the constraints of commitments and optimize fulfillment of priorities. We will revisit the requirement of the "open-minded" administrator below.

Demand for University Policy Analysis

As economists participate in internal policy discussions within universities, Sandra Batie (2005) provides useful suggestions about assessing the demand for economic analytical input prior to supplying it. She summarizes a list of what economic science-based environmental policy analysis has to offer (previously set forth by L. A. Shabman), which can be useful for university policy makers: Economic analysis "can inform decision makers about alternative institutional arrangements; it can expand the range of choices in the debate; it can provide an estimate of the opportunity cost of choices and outcomes; it can reframe the policy problem definition; [and] it can identify potential solutions" (p. 124). Batie characterizes "science advocates" as individuals actively engaged in the policy process, using their research to advise the policy process, and who introduce new alternatives into the policy debate; but economists are not the "appointed gatekeepers" of the outcome of the debate.

Batie describes the elements of policy analysis which will be useful to consumers (policy makers). If the position of the consumer is not considered thoroughly, the demand for the analysis likely will be weak and potentially considered more noise than substance. Policy analysis must "have value within the political process to be demanded.... public policy is about values as well as the incidence of costs and benefits" (p. 125). In terms of costs, Batie identifies four types of costs important to a public policy maker: (*a*) out-of-pocket costs of analysis, (*b*) opportunity costs, (*c*) transaction costs of each alternative,

and (*d*) political costs. Political and functional practicality of alternatives identified also determine the judgment of the consumer on the usefulness of further policy analysis. Finally, Batie notes that there are "demand shifters" for policy analysis as boards of governors, legislatures, or courts establish new requirements for the functions of policy makers. If economists can provide useful alternatives for the fulfillment of new rules in a university-wide context, there may be additional demand for analysis. Batie suggests two approaches in which demand for economic science-based analysis might be the greatest: (*a*) the "if-then" approach of supplying probabilistic estimates of the outcomes associated with alternative actions, or (*b*) provision of a framework for analysis before the time for critical action. She writes:

> Policy relevancy requires that the science advocate understand the policy in question, the issues of concern, and the institutions and stakeholders involved in the decision(s). This requirement suggests a considerable amount of effort by the analyst in understanding the history of the issues surrounding the policy, the motivations of the actors involved, and the policy process itself. Also, to be an effective analyst requires a commitment to learning about the art and craft of policy analysis (p. 128).

Fulfillment of mission requires a clear understanding of the missions of an institution and metrics of success. These missions include academics, athletics, alumni relations, and constituent relations, established by the governing board and the upper administration. Economists can help central administrators establish systems of incentives, success metrics, and divisions of authority which match identified realms of specialized knowledge existing on campus and within the larger community.

Additionally, the analyst must understand the decision-making personality of the administrator, i.e., centralized or decentralized in style, politically or mission motivated, biased in terms of values placed on particular missions of the university, and so on. If the administrator is centralized and listens only to a small group of hand-picked advisors, if politically motivated, or biased toward revenue generation or one particular mission, economic analysis may not be in demand. Also, if the administrator perceives an analysis comes forward in a critical or self-interested manner, the analysis component might be disregarded as the administrator probably is not an economist and reasons that the economic argument is more a justification for a self-interested conclusion rather than an objective application of analytical thinking. It sometimes amazes me that well-trained scientists, in any field, have very rigorous standards for data analysis to test hypotheses in their discipline, but these standards sometimes are abandoned when making arguments related to institutional management.

Conclusion

Economic decision tools are powerful. As in any shop, selection and use of the proper tool for the appropriate job can be very productive. The stated objective of this paper is to explore the internal university policy-making environment, its multi-dimensional decision variables, and varying demand for science-based analysis, to inform economists how they might contribute their expertise in a peaceful and effective manner. The focus is on how economists, as faculty members, might approach contributions of analytical thinking to internal university policy decision making. Peaceful conclusions and their effective deployment from the application of "analytical thinking" might require economists to consider the following:

- Carefully evaluate the nature of each decision as a commodity purchase decision or a public policy decision, and determine where the greatest relevant knowledge exists.
- Work closely with an administrator on university-wide decisions to devise evaluation tools with appropriate attribute, cost, and valuation measurement data—but this effort will be only as effective as the trust/relationship developed with the administrator.
- Evaluate the constraints on the decision environment, e.g., budgetary, university statement of values, and external regulations established by judicial and executive branches of government.
- Participate constructively on committees to add faculty perspective on issues of broader university context, and be early in contributing the framework of analysis.
- Consider "if-then" decision formats to provide alternative actions with their consequences.
- Understand the personalities of the decision makers and determine whether they signal demand for further analytical information.
- Recognize personal motives either as an individual with self-interested opinions or as an economics science advocate desiring to contribute logical frameworks for better public policy decisions.

Matching public policy decision tools to public policy tasks provides an excellent opportunity for economists to contribute their expertise within the university in peaceful and productive ways. An active, open application of economic logic can elevate the impact of faculty input on final university decisions.

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