Faculty and Universities in a Free Market (Chile): Comment by a Fallen Free Market Academic

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For all of its faults, Chile is one of the freest markets in the world. There is relatively little regulation - as least compared to socialist nations like Canada, Britain, New Zealand, and the USA. Although the new socialist president in Chile is licking his chops thinking about changing the current system of higher education, it still remains relatively unregulated. There are few barriers to entry into the university business and there is no mandatory accreditation. There are requirements that must be met to be authorized to grant degrees, especially in "public interest" fields like medicine and architecture. Also, a university must prove itself worthy to become fully "autonomous" from the nominal oversight of a larger and older ("traditional") university. But in practice, these nuisances have proven trifling, and the private university market has exploded in Chile over the last 15 years.

One reason for the explosion has been the pursuit of profits (i.e., "greedy" capitalists in search of tax breaks and otherwise "filthy lucre"). Universities are tax exempt and the only way for owners to get profits and/or capital out of them is to actually perform labor services for the outfit and earn a salary - which can be inflated. But how does one take out the "big money" - especially given that revenues from these little gem businesses can range from $10 million to perhaps $50 million annually? It is pretty hard to pay salaries that high so another means has been invented. The shrewd Chileans have apparently mastered a means of extracting a large portion of these tax free profits in the form of building rents and leases. Here is how the system works: A separate real property company is formed (often with the sole, or at least main, purpose of serving the university), which buys all of the buildings that the university will use. It then sets a monopoly price for the use of those facilities. Not surprisingly, the university board votes in favor of paying the high rents to the for-profit monopolist for any number of good superficial reasons stated in the board's minutes. The result is a profitable distribution of tax free cash to a few jolly old men. (By the way, the president of my former university claimed that they did not have such a lease-profit scheme - at least before its 1999 merger with another university - but he did not specify how the profits were actually extracted other than by salaries.)

Where does that leave education - I mean what the "developed world" considers higher education should be? As I have mentioned before on the email lists to which I contribute regularly, such as Policy Profs for Liberty, there are very few Chilean faculty members who (1) engage in research, (2) are full time faculty, or (3) who have a graduate degree (the large majority of faculty members have only undergraduate degrees). The private university has become a place were a businessman, an architect, a lawyer, or a physician gets some prestige by teaching a class after work for a few hundred bucks a month. I have heard of some who teach for "free" (i.e., just for the prestige without any cash). Thus, with the possible exception of the few traditional universities, the lion's share of Chilean universities are staffed by part timers and adjuncts. Until recently, I was one of the few full time faculty members of a private university and I had ample experience over four years to speak with adjuncts, students, and others about the way things work. Well-paid administrators minimize production costs by doling out prestige to lure adjuncts and then herd students through 5 years of courses, charging them (or their parents) the maximum that the market can bear of course. This catallactic activity results in very efficient teaching centers. The private Chilean university is, in my judgment, a teaching center which combines some of the features of an American community college's zero-research program and numerous adjunct instructional team, with the size, feel, devotion to principle, and structure of a typical American liberal arts college. The main difference is that almost no Chilean universities teach a liberal arts curriculum. Instead, a private university student in Chile picks from 5 or 10 available majors and takes 5

years of courses in that major (only a slight exaggeration).

But this is the free market. Is the Chilean system "bad" or socially inefficient? I have no reason to believe so given that it is the product of voluntary exchange. But there is a looming problem that academics have to face: there is no research and few new ideas being developed. Indeed, people seem to be content to free ride on North American and European scholarship, and this fact has changed university culture. Most classrooms are filled with students who are being "dictated" courses (that is the word used in Spanish rather than the word "taught"). Although there has been a surge of ADBs turned professors from places like Boston College in recent years, many professors still base their lectures on articles they got from Chicago during the 1960s and 1970s. This is not entirely bad since most professors have not been to graduate school at all and base their classes on lecture notes from when they were undergraduates in Chilean universities.

Students are not encouraged - and this is no understatement - to imagine, be creative, or even courteously dispute a point with the professor in class. Professors have undergraduate helpers ("ayudantes") for each course who do all of the grading and who also field most of the questions in special lab sessions. (These ayudantes are typically the best students from the previous semester or year.) There is a culture of the received truth, which is not surprising I suppose given that most faculty have never been to graduate school. The teachers have the truth and the students must master it. It is a sort of Obe Wan Kanobe methodology. Professors are rarely accessible, especially adjuncts, and when they do make themselves available to be approached - and this comes from the mouths of many students) - one must be sure to pay proper obeisance to the master. Although at first I was surprised by this sentiment among students, I grew to better understand why one student described me - not a terribly personable person - as "the most personable professor" that she had had in 4 years at the university.

Being a tough professor, also a trait attributed to me over my years in Chile, does not always have its rewards. Some of you who teach in universities might find it amusing that my course requirements were at times considered as "tough" and "too hard". For instance, I teach the equivalent of an American upper division course in which I require a 5 to 7 page term paper, a final exam, and weekly seven-question true/false quizzes on the readings (which average about 20 pages). By American standards, my requirements are somewhat light, but in Chile they are "difficult". Less amusing are the miserable or at least unimaginative requirements in courses by my colleagues. Typically, at least in non-elective courses, students are used to memorizing texts and formulas and then being drilled on details with 5 tests over a semester (dropping the lowest grade). I have heard that some elective courses do not have tests, at least not real ones, creating a two-tiered system of courses in which students expect electives to be a piece of cake.

Furthermore, many of you will be amazed that my courses, whether graduate level or in the 4th or 5th year, provided the very first opportunity for a student to write a term paper. Indeed, I never had a student in 4 years of teaching in my own university - or several others part time - who had ever written a bona fide term paper. I have never had a single one who knew how to write a bibliography or a footnote correctly, or even how to do some "research" in a library. I once mentioned this astonishing fact to some administrators at my university and they blamed the problem on the Chilean high school system. I then wondered how it was that so many administrators who actually went to graduate school in the USA coped with the term paper requirements. Or maybe Chicago and Boston College do not require their graduate students in economics to write papers? It is also remarkable that a very low percentage of Chilean professors who went to graduate school abroad have PhDs (i.e., have written a dissertation). An article in El Mercurio (a special report on Chilean higher education Sunday, June 20, 1999), Chile's largest daily paper, noted that only 18% of Chilean university professors have PhDs. It went on to note that most of them do not even have master's degrees (considered to be a consolation prize for not attaining a PhD in the other places). Indeed, 80% of the faculty in the nation's largest traditional school, the University of Chile, only hold undergraduate degrees. This figure is not so bad in other places, and is much better in some departments (notably the economics department at Catholic University or the MBA faculty at Adolfo Ibañez University), but hardly any university has a faculty where more than half of its professors possess a graduate degree. At first, I found it odd that many of my students did not know there was any real difference between a master's and a doctorate. Some even thought that a master's degree was superior to a doctorate. Later, after seeing the logistics presented in El Mercurio, I better understood why my students were not clear on this matter.

Despite having less-than-first-class faculty and unimaginative or antiquated courses, I would still have to say that university is not "easy" in Chile. Even in the private universities, only a small percentage of those who enter actually graduate. Those who do get out are often quite smart - or at least good at memorizing. Well, perhaps I should not be so optimistic and sanguine. If I were a manager in Chile, the truth is that I would not give you a nickel for many - if not most - private university graduates. There are some good ones, but surely not all are good. A firm has a better chance at getting a good graduate from a traditional university, like Catholic University. Indeed, managers already realize this fact. It is very common to see job ads where an employer specifies that an applicant's degree must be from a traditional university. So, interestingly, we see the market at work reacting to what the market has done via the private universities.

One reason why many students are not well qualified is that they cheat. Now don't think for a moment that I am exaggerating when I say that 95% of undergraduates copy and cheat whenever they can, and 80% of graduate

students (e.g., MBA) do so. These are realistic figures. One reason that cheating is so rampant and unchecked is the desire to maximize profits. There can be no other reason, can there? If a student is caught cheating, and several have been caught in my classes with the most intriguing devices, the nationwide (spontaneously emerged?) policy is simply to give the student a 1.0 (i.e., an F) on that test and wish him better luck next one (after scolding him for practicing a venial sin). At least this is the policy in private universities. One Catholic University student told me that the cheating policy is more severe at his school (which I have yet to confirm). By and large, students are simply not booted out for cheating. Imagine what would happen to all of those real estate lease revenues if half of the students were expelled? Now we economist types respond, "Well, in the long run expulsions would be good, and there would be returns to reputation...", but, alas, that logic has evidently escaped the folks in Chile - even some of the Chicago boys themselves.

However, not all of the administrators and faculty members are satisfied with the status quo. They truly want reforms and, out of admiration for the American system, wish to advance into the developed world of education. This ideal is a bit puzzling because the result in Chile is certainly a free market result, more or less - unless we can find some obscure and nasty distortion yet embedded in the white noise variable. Moreover, it makes us wonder whether there can be research without either (1) Rockefeller-style philanthropy and volunteerism, as was the case in the USA, (2) legislation-made tax incentives to encourage huge donations to university programs (where the rich man gets, of course, his name plastered above a school's doorway), or (3) government-run universities.

Has the free market failed?

Those who know my work will recognize at once that I am a staunch defender of the free market. My classically liberal economic credentials are pure. Accordingly, I would at this point opt for theory (1) above: that research and progress require volunteerism and a lot of people who are willing to trade large estates for utility gains derived from the expectation of changing ideas over the long run. Legislation and government provision are backdoors and cheap imitations of what the market does just fine on its own. (Well, at least the market works in the English speaking world and Europe. But culture is another story.)

If it is any consolation to Chileans, I have heard it said that many systemic problems which exist in universities in the rest of Latin America are worse than they are in Chile. I tend to believe it when I see so many top-end students from Bolivia, Argentina, Peru, etc. flock to Chile to go to college.

As I draw my tale to a close, I want to highlight another ironic fact. I recently fell victim to the Chilean free market system of higher education. Indeed, the free marketer has been ousted mid-semester by market forces.

Chilean universities know nothing of tenure. With just a couple months of severance, or some amount ranging from zero to a year's pay for long timers - thanks (?) to worker's legislation and not to the market - faculty can be fired at any time during the year. Profits are maximized in salaries saved and then costs to students are minimized if possible, even if faculty are fired in the midst of a course.

It is not that my university did not like me anymore or that I did not produce enough. In my four years in Chile since receiving my PhD, I have written five books (one of them a textbook), six scholarly papers which are either published or in the review process, two scholarly compendiums, and seven journalistic or advocacy pieces (such as this one). Most of my work is available in both English and Spanish too. Needless to say, my production is well above the Chilean average. And, semi-miraculously now that I think about it, somehow I managed to accomplish all of this output without a library (I relied on friends and research assistants in the USA and a couple of visits) or good internet service. Furthermore, I have been asked by the administration to continue as an adjunct professor at my former university - for less than a tenth of the pay. (I will not bother going into the details why, but I decided not to continue as an adjunct there.) Another five or six schools have made me similar offers. In short, many universities like my research and what I teach. They just do not want to pay for it. The returns from a research professor simply do not justify the costs.

I am not complaining about losing my job, of course. How could I? A free marketer would be somewhat hypocritical to do so. Moreover, I both knew it was coming six months ago and actually laid down an ultimatum (to some extent) with the president by letting him know that I was not pleased with the (completely inadequate) library and technology resources for doing research and that it had to improve or else. My career was starting to suffer, and my 6 year old Pentium I unit was too, especially after the cost-minimizing vice president of finance opted (for eight months during 1999) to ditch the already ailing internet system. That act forced me to take on a nocturnal existence, doing internet research from home in the middle of the night for several months (at my expense). They had hired me to do research but were not willing to give me the tools to let me achieve, so I had to complain. Hardly anyone else in the university was affected, so my complaints fell on deaf ears. (I was the only full time PhD there, although I knew of one other person, who was ABD in political science from Madrid, that attempts to do scholarly research). It was not profitable for the administration to please the research faculty.

I had long since given up the fight for the library actually, which is no bigger than a little rural library in a teeny rural town in the USA. They do have a couple shelves full of back issues from a few journals - mainly someone's freebies for being an AEA member for 10 years or something. And I did spy the local Santiago periodical (which is a good one and reprints a lot of Hayek, Chicago

folks, etc.) that was up-to-date. But basically there are no journals or books or anything useful to scholars doing current research. The internet loss in 1999 was sort of a last straw for me. (Many of those webmasters and academics with whom I corresponded regularly can attest to the difficulties the university's computer department had just providing a working email system during 1999.) The university's computer people blamed (justifiably) the cost-minimizing administrator's choices - he was evidently less concerned about research difficulties than he was with saving a few bucks and ensuring that Joe, Tom, and Bill didn't watch American pornography on the university internet connection. A firewall thus nixed all links to reality. To paraphrase Jeremiah (in the Bible), they did not "separate the precious from the vile" but, to use a more common phrase, threw out the baby with the bath water. I have a feeling that the boys still found the pornography but reading and downloading scholarly articles went down the drain.

So I sit here now in the middle of the night during my second week of being unemployed pondering bout Chilean education and the benefits of the free market. I am also wondering whether I have ceased being an academic or a professor now that I am not employed by a university. Can one be an intellectual without the proper garb? Will I have time to write and think in ensuing months? Or will my intellectual life become sequestered into a hollow, limited sphere, mostly crowded out by the preoccupations of some new job in the real world. Was getting a second MA and the PhD just a waste of time? Should I hide my PhD from future employers lest I intimidate them? Such are the questions that now haunt me.

Unfortunately, because the rest of the world does not have a free market in education like Chile's, they have rigidities about hiring only once a year normally and then six to ten months or more ahead of time. Add to the equation that I am a free market "extremist" who dares to not use math in his models, and one can see the difficulties that the academic world outside Chile poses for me. There is simply little interest and no time frame for hiring a soon-to-be-starving academic with six kids. Moreover, being a homeschooler or a churchgoer hardly grants me any extra credit. Evidently, leftists, socialists, and interventionists have a reason for a little rejoicing this week. The free market - surely an unsuspected ally - has ousted an opponent.

I guess that the rigidities of the academic world now leaves me with the business world. This free marketer will soon be allocated by market forces into a different profession.

But still I am left to puzzle over the free market.

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