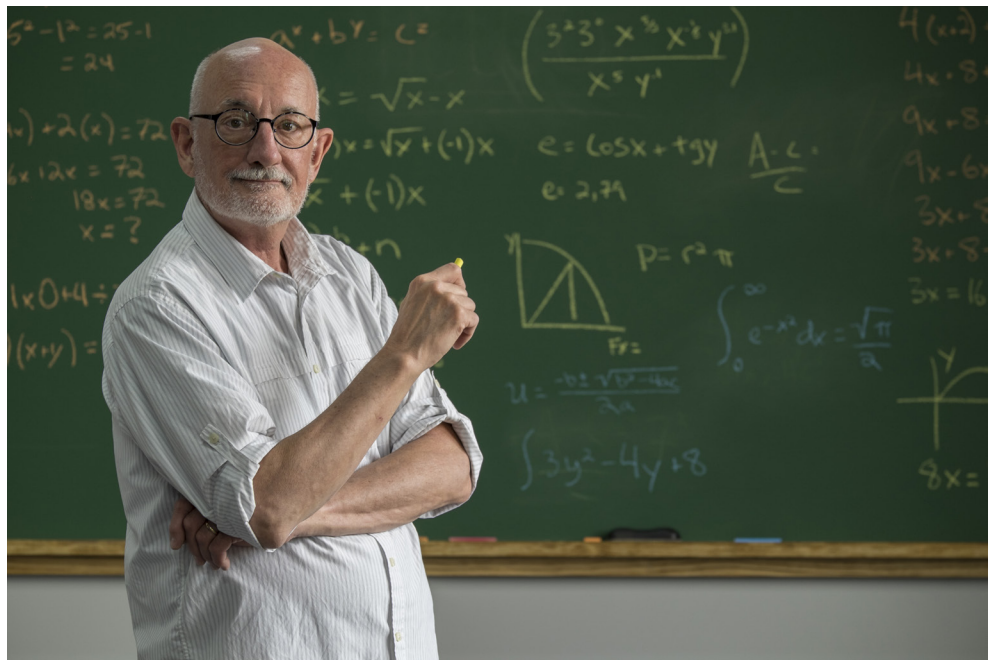




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THE ECONOMICS OF TEACHER TENURE

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ABSTRACT

In the mind of the average American, the concept of tenure equates to job security. Tenure does not guarantee employment, but it does increase the difficulty of firing an employee. Teachers can acquire tenure not only at the university level, but also K-12. There are fundamental differences in risk associated with university faculty and K-12 teachers. There are also major differences in the road to tenure. This essay evaluates tenure at both of these levels and analyzes the cost-benefit associated with it.

INTRODUCTION

According to the Merriam-Webster online dictionary, tenure is defined as

“the right to keep a job (especially the job of being a professor at a college or university) for as long as you want to have it.”¹ Is tenure part of an employment contract for faculty at either K-12 or university faculty? Missourians considered the question with respect to K-12 teachers when they voted on Amendment 3 in November 2014. Because additional considerations were included in Amendment 3, the defeated ballot initiative does not tell us whether Missouri voters are for or against teacher tenure. All we know is that they rejected the bundle of policies in Amendment 3.

In this paper, my goal is to examine the economic arguments that apply to teacher tenure. There are three

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main parts presented in this essay. First, it is important to describe the common ground that exists between K-12 teachers and research university faculty. Indeed, the starting point is that all employment represents a match in which both the employee and the employer are subject to some risk. For each job, the job description never exactly matches the actual work. On the other side of the market, each person's self-described skills are imperfect predictors of actual job performance. Based on this information problem, there are risks to a teacher and to a school district or university.² In order to share this risk, there is often a probationary employment period in which each side evaluates the quality of the match. The end of the employment match can be initiated by either the teacher or by the school district.

Thus, both K-12 teachers and college professors have jobs that are characterized by a probationary period culminating

in a tenure decision. However, the process for awarding tenure is very different for K-12 than it is for a research university. The different processes reflect the fact that the jobs have fundamentally different attributes. In the case of K-12, the job consists primarily of disseminating knowledge, while a research university faculty appointment consists of discovering and disseminating knowledge.³ The discovery aspect could be an important characteristic. As the analysis will show, discovery involves presenting ideas that are in the public record in scholarly journals. As people observe a research faculty's publications, the ideas potentially offend some people. The implication is that the nature of the discovery part of a university faculty appointment creates a set of risks that are quite different than risks that are present in the K-12 faculty appointment.

¹ See <http://www.merriam-webster.com/dictionary/tenure>.

² For teachers, the employer is either the school district or the university. For K-12, private school teachers are not awarded tenure. As such, teacher employment in which tenure is awarded is associated with either a school district or a university located in Missouri.

³ Of course, both K-12 and research university appointments have "service" aspects to their jobs. There is committee work and extracurricular activities that are time consuming. Undoubtedly, the service performance enters into an assessment of overall job performance. It is uncontroversial to state that the service component is not the "primary" feature of either the K-12 or research university job.

Third, what problem is tenure solving for these two different types of jobs? More specifically, I describe tenure as providing both K-12 teachers and research university faculty with a form of job insurance. Insurance is a response to risks. Most jobs do not provide tenure explicitly. So, workers meet job performance expectations year after year to continue being employed. Tenure is not a guarantee; tenured people are fired for cause. However, tenure means the cost of firing people is higher than the costs associated with almost every other worker. But, the critical question, in my view, is to describe the risks that are addressed by tenure for a K-12 teaching position compared with the risks that are addressed by tenure in a research university faculty appointment. After two descriptions are complete, it is possible to assess the relative merits of tenure in each type of contract. There is a critical difference between the job description for K-12 teachers and university faculty; university jobs have a research component. As new ideas are discovered, those with political power may not like the ideas and could attempt to have research faculty fired. (Think Galileo.) Research activity, therefore, means that you could be fired for doing your job. There is no such job risk for K-12 teachers. It follows that the case for awarding tenure is stronger for research university faculty than it is for the K-12 teachers.

Both K-12 teaching positions and research university faculty appointments are typically considered for tenure after a five-year probationary period is completed.

Not all research university faculty appointments are considered for tenure. Only regular, tenure-track faculty positions are considered for tenure. Moreover, not every tenure-track faculty member is granted tenure. There is a vetting process that starts at the department level and goes through the college and the university committees before tenure is awarded.⁴ At the University of Missouri–Columbia, for example, a tenure-track faculty member is awarded tenure based on their research productivity, their teaching, and their service to the profession and to the university community.

In Missouri, the tenure procedure is different for K-12 faculty. The American Federation of Teachers describes the tenure process as follows:

A teacher becomes tenured in Missouri once he or she has been employed as a teacher for five successive years in the same school district and thereafter remains employed in the same district. Generally, a teacher acquires tenured status on the first day of his or her sixth successive year in the same district. The five-year period is shortened by one year if the teacher has two or more years of teaching experience in another school system. A teacher who gains tenure with a district and is then separated from employment with that district can regain tenure if re-employed with the same district for one full year. In addition, teachers who are employed pursuant to a part-time contract gain credit toward tenure on a prorated basis.⁵

There is a critical difference between the job description for K-12 teachers and university faculty; university jobs have a research component.

⁴ For full disclosure, I am a tenured professor of economics at the University of Missouri–Columbia (MU).

⁵ See Wickam and Wood at <http://mo.aft.org/resources/know-your-rights-part-1-states-teacher-tenure-law>.

Employment matches are not permanent. Indeed, separations provide information to the market.

For K-12, teachers are contracted to teach and to provide service. There is no research component for the K-12 teachers.

COMMON GROUND: DESCRIBING THE EMPLOYMENT MATCH PROBLEM

Let's start with a very general description of the labor market. In modern textbooks, economic theory depicts employment as the outcome of a matching process involving an employer and an employee. Before employment is finalized, the potential employee provides information, albeit imperfect, about the person's skills. Similarly, the employer provides a description, albeit imperfect, of the job and the skills the employer believes are most valuable to the business enterprise. The objective of this process is to identify the best match, taking into account that both sides bear costs associated with searching; that is, the employer seeks to match the set of skills with a vacant position and the employee seeks to find a job vacancy that meets his or her goals without being able to sample the entire universe of potential applicants. To complete the process, both parties agree on wage rate.

Employment matches are not permanent. Indeed, separations provide information to the market. A separation—that is, either a quit (voluntary separation by the employee) or layoff (involuntary separation from the employee's perspective)—provides useful information to market participants. Why? Over time, information is

revealed to both parties regarding the job. For employees, working conditions, expectations regarding performance, and other job specifics are communicated in ways that cannot be accomplished in interviews and job descriptions. As a gap between the worker's expectations and the actual job emerges, the employee can choose to quit and voluntarily leave the employment match. On the other side of the market, the employer learns about the worker's skills and productivity. The employer can lay off the worker based on such new information, creating involuntary separation from the perspective of the worker.

Quits and layoffs also provide information to others. Both quits and layoffs impose a kind of market discipline to the employer-employee match. Each side is accountable to the other in keeping compensation in line with the productivity. As worker productivity and the job description becomes more transparent, both the employee and the employer are developing reputations. The worker is learning how the employer treats employees and what kinds of raises are offered over time, affecting the worker's decision to stay on or not. Similarly, the employer is observing the employee's behavior. A forward-looking employer takes this observation into account when deciding whether to maintain the match or lay off the employee. Reputations matter in the sense that they affect future job matches; employers do not want to be labelled "bad" for misrepresenting working conditions and low pay for what is expected. Employees develop work

histories. No worker wants a resume filled with a long list of short-term employment matches.

A simple model of the job-match process is a useful place to point out information problems that are present in every job match. There are two key types of information problems present. One type involves the problem inherent to communication between people. The second type involves information or actions that are purposely hidden from the other party. The bottom line is both workers and companies are subject to risks because of these two types of information problems.

In terms of teacher tenure, the probationary period is long enough that the first type of information problem is absent. After five years, teachers and schools have gotten past the problems of knowing what the job is and how well the worker can perform that job. In what follows, the focus is on the second type of information problem after tenure is awarded.

MORAL HAZARD AND TENURE

For faculty, the probationary period lasts for at least a five-year period after the employer-employee match occurs. In terms of the basic employment contract, this probationary period is used to judge the quality of the match. The employee's productivity is assessed, the employer's working conditions and raises are monitored, and both the employee's and employer's reputations are being established.

By awarding tenure, there is a change in the labor contract between the teacher and the school. Tenure makes it more costly for the school to lay off the teacher. Note that the costs associated with laying off a tenured faculty member are not infinitely high—there are conditions under which tenured employees can be laid off—but the costs are certainly much higher when compared with untenured teachers.⁶

From the perspective of the teacher, tenure represents a kind of insurance policy. To illustrate this point, consider the tenure agreement: The school promises to keep the tenured faculty member employed as long as the employee does not do observable things that cause tenure to be revoked. Insurance policies change people's behavior.⁷ Moral hazard refers to actions that people take, while insured, that are riskier with respect to the expected behavior. A classic example of moral hazard comes from automobile insurance. An insured driver engages in more risky actions—speeding, reckless lane changes, etc.—precisely because the driver is insured and will not pay the full cost of an accident. Because the insurance company does not observe the driver's behavior on a daily basis, the insured, reckless driver is hiding actions that are enjoyable to this person that would affect the relationship with the insurance company if observed. Insurance can affect behaviors when hidden actions are an option. So, tenure can alter the outcome between the school and the teacher.

Moral hazard refers to actions that people take, while insured, that are riskier with respect to the expected behavior.

⁶ Just cause is the dominant phrasing used in post-tenure employment contracts. With tenure, layoffs can and do occur because of incompetence, non-performance of duties, moral turpitude, or financial exigency.

⁷ With any insurance policy, there are potential changes to the insured person's behavior that do not constitute revocable actions. These behavioral changes can be barely noticeable and therefore do not rise to revoking tenure.

The point is that it is prohibitively costly to monitor teacher effort, and with job insurance in the form of tenure, there is an incentive to shirk.

Let's break down the teaching job into two parts. In both K-12 and universities, the job has a teaching component. How could tenure affect the teaching performance? With tenure, the teacher's classroom performance is hidden because it is just too expensive to monitor the minute-by-minute actions of each teacher. Therefore, there is a risk to the school that a tenured teacher will begin to shirk. There are numerous ways for teachers to "underperform": less preparation before entering the classroom, less patience with student questions, less effort when grading, to name but a few. It is difficult to quantify the effect that such hidden actions have on the dissemination of knowledge to students. The point is that it is prohibitively costly to monitor teacher effort, and with job insurance in the form of tenure, there is an incentive to shirk. This does not mean that tenure permits little or no effort. Job loss due to performance

is possible with tenured teachers, but tenure does make job separation more difficult.

In research universities, there is an additional part to the job description. Specifically, there is a research component present in the university teacher's job description. Research output is measured by books, book chapters, and scholarly articles that go through some vetting process, falling under the general heading of peer-reviewed research output. It is harder to shirk on the research component because it is readily observable and quantifiable.

With the research component, hidden action is less of a problem. Of course, non-performance must be enforced. If tenure means that a university grants permanent employment to a faculty member regardless of the research output, then the same incentive to shirk



applies. In Missouri, public universities are subject to post-tenure review. So, now university faculty must submit records of their research output and are deemed satisfactory or unsatisfactory based on their performance. Post-tenure review provides information that is necessary to assess whether a faculty member is shirking with respect to the research component of their university job.

There are also risks to the university faculty member associated with producing research results. Basic research—the discovery of new knowledge—relies on ideas. Sometimes, discoveries represent pathbreaking ideas that are controversial. What are the consequences of such research activity? New ideas require that people think carefully about their worldview. If the new ideas somehow undermine the person's worldview, often they respond by attacking the idea or the person who is offering the new idea. To illustrate how this works, consider one of the key tenets of the free-market principle: Prices are determined by balancing the quantities demanded by buyers with the quantities supplied by sellers. It follows that prices are an effective means to allocate scarce resources. Yet, relying on the market solution almost assuredly means that the distribution of goods is too uneven, and therefore, it could be deemed unfair according to the worldview that everything should be divided equally among people. So, if an economics professor writes a research paper in which market prices are determined by equating the good's demand and supply, there could

be repercussions. Indeed, if elected officials find the idea objectionable or controversial, untenured state university faculty could be fired. In such a case, tenure provides some cover for active research faculty.

In summary, tenure is desirable for teachers at any level. It raises the costs of job separations initiated by the school district or by the university. As such, tenure provides a form of job insurance to the teacher. With insurance, however, there is always the possibility that a person will hide their actions. Hidden actions create costs in the form of lower productivity. In the case of K-12 teachers, lower productivity occurs in terms of the dissemination of knowledge to students. In the case of university teachers, lower productivity affects knowledge dissemination and knowledge discovery. Thus, the key question is whether hidden action is costly enough to keep teacher tenure.

CONCLUSION

After a probationary period, teacher tenure is part of the employment contract in many Missouri K-12 schools and universities. In this essay, I review the economics that apply to teacher tenure, identifying moral hazard as one of the key consequences. Specifically, moral hazard applies because the cost of separating teachers is raised, providing a kind of insurance for the employee. The cost, though difficult to quantify, is reflected in lower teacher productivity. For universities, knowledge dissemination is also subject to the same moral hazard inefficiency. Research is also

The key question is whether hidden action is costly enough to keep teacher tenure.

an important component of the university job, and research output is much easier to quantify.

The key difference between K-12 faculty and university faculty is the research component of the job. For university faculty, research potentially creates risk because ideas conjoined with research activity can be controversial. In this way, tenure protects active researchers from arbitrary separations that owe to the administration simply not liking their ideas. As Michael Cameron (2010) states, tenure is noted by some as giving rise to cases “where professors have become lazy and complacent.”⁸ Such bad outcomes associated with tenure are empirical support for the moral hazard discussed above.⁹

The purpose of this essay is not to say whether tenure should or should not exist. This is about the economic tradeoffs associated with tenure. One counterargument is that if you get rid of tenure, salaries would have to increase to compensate people for the greater risk associated with “non-tenure” jobs. The evidence, however, indicates that private school teachers, who do not generally have tenure,

are paid less than their public school counterparts. So, the issue of total compensation is more complicated than just focusing on the future-employment risks that increase when tenure is removed. Indeed, at the end, I do not have a clear recommendation for whether tenure is justified for K-12 or for university faculty.¹⁰ I do show that the case for tenure is stronger for university faculty than for K-12 faculty, and this owes principally to the research component present in the university job description.

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⁸ See Cameron, “Faculty Tenure in Academe,” 8.

⁹ Metzger traces tenure back to the edict issued by the Holy Roman Emperor Frederick Barbarossa in 1158 offering protection to traveling scholars.

¹⁰ In 2007, Steve Levitt argued that tenure should be ended for everyone. See <http://freakonomics.com/2007/03/03/lets-just-get-rid-of-tenure/>.



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