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Separate the Professions and the State

by Lewis M. Andrews

Since the early 1990s, and even through the collapse of the stock-market bubble, the American economy has continued to experience remarkable increases in worker productivity, both in manufacturing, which now accounts for 14 percent of the nation's output, and in many service sectors as well. By the third quarter of 2003, the U.S. economy was growing at 8.2 percent, the highest rate in decades.[1]

Yet in retrospect, we notice that the efficiencies that propelled the American economy for more than a decade have evaded an important segment of the workforce: high-level professionals, including those employed in education, medicine, and public administration. As a result, tuition at the average four-year private college in the United States nearly doubled from 1990 to 2000, going from $10,348 to $19,312.[2] During that same period, state universities imposed an 85 percent increase on their students. Similarly, with the exception of a brief respite from the implementation of managed care in the late 1980s, health-care costs for business are rising at 9.6 percent annually, simultaneously increasing the net price of labor while reducing what could be available for wage increases.[3]

As we shall see, professionals are adept at manipulating the political process, inflating the cost of many services with direct and indirect government subsidies. But to really understand how certain groups of highly educated workers can command ever higher compensation in an otherwise efficient economy, we must first go back to a management concept that has traditionally helped to define the very meaning of the word professional: "collegial self-regulation."

This means that the nature of the service is so sophisticated and intricate that the quality of its rendering can only be judged by someone else educated in the same field. Unlike the factory worker, whose job is sufficiently easy to understand that it can sometimes be automated or outsourced to less-educated labor in developing countries, the professional is deemed to have a labor function that only he and his colleagues, speaking through their professional associations, can comprehend and therefore regulate, either through a shared code of conduct or through their influence over the writing of relevant legislation.

The result is that, while many professionals technically have bosses—college presidents and deans, hospital administrators, or simply private-sector clients—a large part of their daily behavior is governed by rules and expectations of their own making.

Like industrial workers, most professionals are paid for the time they work, but with little incentive to improve productivity in the classical sense: output per hour. Instead, they are expected to add value by "doing their best."

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And while there are certainly many people in every profession whose personal ethics hold them to the most exacting standards, it has been the historical tendency of every self-regulating elite to promote legislation that reduces competition, to preserve special privilege, and to insulate its members from the consequences of error and even negligence.

Stephen Moore, president of the Club for Growth, has cogently observed that the two most inflated service sectors in the American economy, public-school education and Medicare, are both characterized by a system of *third-party payments*—which is to say that the cost of educating a child or of treating a sick senior is not borne directly by the consumer, but by a large and faceless pool of taxpayers.[4] The result is that the consumers of these services have no personal incentive to insure that they are provided at the best possible price.

Third-party reimbursement is not the only way that professional elites thwart competitive pricing, but it does suggest a more universal truism: that the power of a profession to preserve its high-priced inefficiency lies in its political ability to blunt competitive pressure through subsidy or regulation, and especially through licensing requirements that limit the number of people who can practice in its field. At the same time, every profession promotes a stereotype of competence that precludes any rigorous evaluation of the service it actually performs.

An obvious example is the case of tenured professors at state universities, whose compensation is completely detached from the number of students taught, the success of former pupils, the quality of their research, or any other measure of effectiveness. Come time for the annual review of university staffing budgets by the appropriate committee of the state legislature, politicians are treated to the usual platitudes about the need for an independent faculty to guarantee students a quality education.

The fact that professional lobbying may seriously harm consumers does not seem to restrain its influence. In the 1990s orthopedic surgeons actually went so far as to persuade the U.S. Congress to punish the federal Agency for Healthcare Research and Quality for correctly concluding that spinal fusion surgery for back pain produces no real improvement. *Wall Street Journal* science reporter Sharon Begley remembers that the surgeons were so successful they "crippled for years the very idea of evidence-based medicine."[5]

Political Arm-Twisting

The ability to create an economic privilege through a combination of political arm-twisting and public relations means that even professionals who claim to compete aggressively for business—architects, engineers, and many lawyers—have, in reality, only a rudimentary idea of what it means to work productively. Their businesses "are ridden with inefficient processes and unstructured behavior," says Albert Bitton, director of business development for Tenrox, a California company that develops management software for service professionals. "Resources are not utilized at the optimal capacities, collaboration is less than ideal, billing cycles are lengthy, project status is based on out-of-date information, and project costs are not managed or known with certainty. . . ."[6]

Ronald Goldsmith, North American editor of *The Service Industries Journal,* agrees. He points out that Federal Express, McDonald's, and many other large corporations have developed powerful techniques for streamlining their services—delegating low-level and repetitive tasks, for example, and using price incentives to control work flow—that the vast majority of professionals could also employ, but believe they can safely ignore. "Unfortunately, [these] highly educated people continue to resist the idea that they have anything to learn from people who deliver packages or flip hamburgers for a living," Goldsmith says.[7]

Allowing professionals to regulate themselves through the political process may have been a tolerable way to manage knowledge workers in times past, when the American economy was dominated by manufacturing and consumers lacked sufficient education to evaluate complicated services. But the number of professionals in America has multiplied to the point where low productivity has begun to create serious economic distortions. As a result of the spiraling cost of a college education, for example, 39 percent of graduates with student loans are carrying a debt load that the Public Interest Research Group's Higher Education Project classifies as "unmanageable."[8] And although there is honest disagreement about exactly how many families have been priced out of affordable health insurance, medical costs are clearly accelerating at many times the rate of inflation.[9]

As in the case of orthopedic surgeons, even the most expensive and critical professional services come with little guarantee of quality. Widely publicized research by Dr. Jack Wennberg and his colleagues at the Dartmouth Medical Center shows that a typical physician's decisions are just as likely to be determined by idiosyncratic local customs and financial self-interest as by any knowledge of best medical procedures.[10] George Halvorson, chairman of California's Kaiser Permanente hospital chain, often cites a study where 135 physicians were presented with the same patient and came up with 82 different treatments.[11]

Most worrisome of all is that professional services are expected to dominate the American economy in the years to come. Between now and 2010, according to Daniel E. Hecker, an economist with the Bureau of Labor Statistics (BLS), employment in the professions is projected to add more workers—seven million—than in any other occupational grouping.[12] Indeed, every one of the top 25 jobs expected to grow the fastest between now and 2010 is a professional occupation.

Demand for Services

This startling "professionalization" of the American economy is caused in part by an increasing demand from aging baby boomers for services such as medical care, financial planning, and adult education, as well as by an increase in manufacturing efficiency, which has led to a worldwide reduction in the need for industrial workers. But even without the boomers, as author Irving Kristol first observed in a famous 1975 essay, "Business and the 'New Class'," the very nature of industrial society requires more—and more varied kinds of—college-educated professionals whose skills go hand in hand with a modern economy: scientists in fields such as genetic engineering, systems analysis, and medical-device design; special-education teachers; higher-education administrators; ecologists; international-marketing experts; public-policy analysts; family counselors; city planners; foundation officers and their research staffs; government managers; human-resource managers; and of course journalists, who can make clear to the public what all the other specialists actually do.[13]

"Knowledge workers are rapidly becoming the largest single group in the workforce of every developed country," says management expert Peter Drucker. However daunting it may seem, he warns that the real economic challenge for developed countries in the 21st century will be to achieve the same 3.5 percent average annual rate of productivity improvement in the professions as manual workers achieved in the last century: "In no other way can [advanced countries] hope to maintain themselves, let alone to maintain their leadership and their standards of living."[14]

The good news is that advances in information technology and management science are beginning to make it possible for nearly every profession to become more efficient. Consider income-tax preparation, a job once considered sufficiently complicated to require the services of an accountant. Today, many people do their own tax returns with the help of *TaxCut* or *Turbo Tax*. In the field of law, sophisticated documents, such as wills and basic business contracts, are readily available on programs such as *Family Lawyer* and *E-Z Personal Law Library*.

Even sophisticated services, such as teaching a college-level course, can be refined and packaged in a more economical manner. Supported by an $8.8 million grant from the Pew Charitable Trust, Carol A. Twigg at Rensselaer Polytechnic Institute has worked with professors from 30 colleges and universities around the country to fine-tune the design of large-enrollment courses, using sophisticated feedback techniques to reduce instructional costs while improving the quality of teaching.[15] "[Our] preliminary results show that all thirty [colleges and universities] reduced the costs of course delivery by 40 percent on average, with savings ranging from 20 to 86 percent," says Twigg. At the same time, the redesigned courses produced "increased course-completion rates, improved retention, better student attitudes toward the subject matter, and increased student satisfaction."

All this is not to suggest that the majority of professionals are ready to let the market forces help them be more productive. They are certainly not ready to let private rating services supplant government licensing, a basic reform that would make all professions more efficient overnight. Unfortunately, no group of workers that gets comfortable with the way it earns a living, be it manual laborers in bygone factories or today's white-collar professionals, ever likes to be forced to innovate, even for its own long-term benefit.

A century ago the pioneer of industrial automation, Frederick Winslow Taylor (1856–1915), earned the undying enmity of labor unions by inventing the scientific study of worker productivity, a discipline that led to an improved standard of living for all Americans, but especially for workers themselves. Today's professional elites are just as resistant to calls for efficiency, only, being better educated, they are far more adept at using the political system to suppress the most important catalyst for higher labor productivity: the consumer's freedom to shop for value.

They Are the Government

The ability of professional elites to lobby government for special privilege is strengthened by the fact that, to a large extent, *these elites have become the government*. Not only do lawyers dominate state legislatures and Congress; but politicians have also extended their oversight of education, health care, the environment, transportation, and commerce to such a degree that the rules under which many professionals operate are increasingly written by colleagues inside some government bureau or department. Not surprisingly, these regulations tend to reinforce the notion of professionals as high-priced hourly labor, perhaps burdened with obligations "to society," but with little responsibility or incentive to improve their own productivity.

And when any program which the government itself directly manages begins to falter, the legislative response is typically to employ even more professionals to provide supplemental services on the same inefficient basis—effectively spreading the government's largess among an interlocking web of diverse knowledge workers. Hence, the political answer to the failure of public education is the subsidy of remedial classes for incoming college freshmen; the cure for inefficient public hospitals is to place them under the administration of a new bureaucratic department; and the solution for prisons that fail to rehabilitate is to hire a staff of psychologists at the department of corrections.

Still, for all their collective ability to shape state and federal legislation—and to do so under the guise of doing good—today's professionals must confront the paradox that their rapidly expanding numbers will inevitably force them to become more efficient. In the end, the ability of any elite to secure an unproductive economic advantage is based on the fact that it *is* elite, not simply in terms of education, but as a percentage of the population. When the number of Americans in professions and related occupations reaches 20 percent of the workforce, as the Bureau of Labor Statistics predicts it will by 2010, the only alternative to making knowledge workers more productive will be economic stagnation.[17]

This coming confrontation with reality will likely be accelerated by the research power of the Internet, which has emboldened consumers to make informed demands on teachers, lawyers, accountants, and especially doctors. In one of the most ambitious consumer-empowerment plans to date, 28 large employers, including Sprint, Lowe's, BellSouth, J. C. Penney, and Morgan Stanley, are teaming up to develop online "scorecards" to help employees choose doctors based on how well—and cost effectively—they care for patients. Using claims data provided by their insurance carriers to measure how well individual physicians stack up against each other, these companies aim to make it possible for employees to instantly check ratings for all the doctors in their area who treat a specific illness and then pick the one who scores best for quality and efficiency.[18]

Already there are signs that some professionals see the need to make their respective disciplines more responsive to market forces. One of the fastest growing trends among family physicians in private practice is drastically discounting the cost of their services to patients who pay out of pocket. Pay-as-you-go medicine is "a phenomenon that certainly isn't in the mainstream yet," says William Jessee, president of the Medical Group Management Association in Englewood, Colorado, "but it seems to be becoming more visible and perhaps more common."[19]

The July/August 2003 issue of *Change* magazine reported that university faculties are increasingly becoming peopled by what it terms "instructional entrepreneurs," full- and part-time faculty who see that the future of education lies in designing, marketing, and delivering more cost-effective programs, especially to students who can no longer afford the traditional four-year curriculum. Among two-year community colleges, the most successful schools are those that excel at rapidly and efficiently accommodating the training needs of regional employers.[20]

What is certain is that the nature of what it means to be a professional must change radically in the years to come if the American economy is to sustain its historic rate of growth. Success and prestige will have to flow from those who are content to earn a credential and game the political system to a newer breed of knowledge workers who are more willing to be challenged and more eager to innovate. □

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