

# A New Hope for Higher Education

*Regulatory red tape has tangled the launch of the University of Austin,  
but motivated founders are cutting through it*

**I**N OCTOBER 2023, the University of Austin finally received permission to call itself a university.

The start-up private college dedicated to the “fearless pursuit of truth” launched its effort in November 2021. Nearly two years later, the school received initial authorization from the Texas state agency tasked with oversight of higher education. That means the University of Austin, or UATX, may finally use the “university” label and begin recruiting students. But that green light is just the first step. It will be years before UATX enjoys full approval from the various regulatory entities it must satisfy.

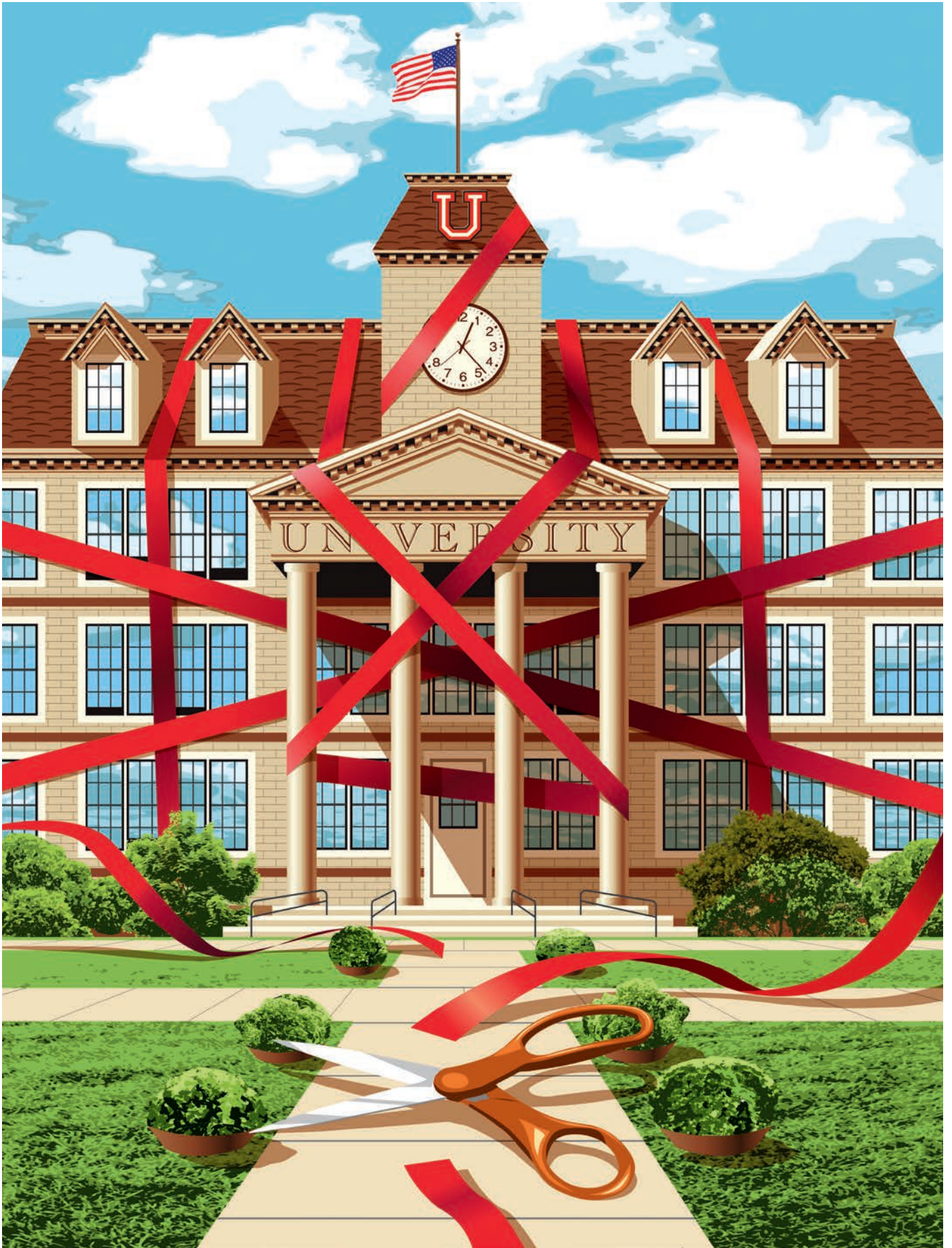
UATX seeks to offer a brighter vision of what higher education can be. Its leaders see many deep problems at today’s top colleges: rigid pedagogical models, administrative bloat, excessive costs, and a retreat from the principles of free expression. Rather than wait for the university establishment to fix itself, its backers figure, why not start an entirely new school? (See “Can the New University of Austin Revive the Culture of Inquiry in Higher Education?,” *features*, p. 48.)

Whether UATX will succeed in that ambitious mission remains to be seen; as of this writing, the university has not yet enrolled any degree-seeking students. But if higher education is to change, competitive pressure will be needed. UATX offers a dose of optimism that some are willing to challenge the status quo. But its case also illustrates the monumental obstacles to starting a new university in 21st century America.

UATX has over \$200 million in philanthropic funding and dozens of famous names behind it. Yet even with those formidable resources, the process of gaining regulatory approval from states, accreditors, and the federal government has been a time-consuming and expensive saga. Aspiring universities with fewer resources might find it impossible.

Barriers to entry into higher education mean that incumbent institutions face less competitive pressure than they might in a truly open market. It’s not difficult to see how rising tuitions result. Entry barriers also limit innovation by denying outsiders opportunities to try out

By **PRESTON COOPER**



DANIEL HERTZBERG



new ideas for effectively preparing students to thrive in society and participate in our democracy. Almost all college students today attend schools that have existed for decades and have changed little about the way they do business. These institutions may adapt too slowly to the challenges of tomorrow.

### Shaking Up Higher Education

The University of Austin’s 2021 launch announcement declared that “we can’t wait for universities to fix themselves.” The response: start a new one.

UATX president Pano Kanelos, formerly president of St. John’s College in Maryland, laments that “many universities no longer have an incentive to create an environment where intellectual dissent is protected and fashionable opinions are scrutinized.” Kanelos cites polls of college students who report they feel uncomfortable saying what they believe and surveys of academics eager to discipline colleagues engaged in wrongthink.

But the academy’s problems are not limited to the recession of free speech and intellectual debate, according to Kanelos. Administrative bloat and an amenities arms race have contributed to unchecked tuition hikes, leading to the student debt crisis. And all that revenue often doesn’t succeed in getting students across the finish line. Nearly 40 percent of students who start college do not earn a degree within six years.

Several high-profile figures have lent their names to the UATX effort, including historian Niall Ferguson, writer Bari Weiss, entrepreneur Joe Lonsdale, Harvard “happiness” professor Arthur Brooks, economists Deirdre McCloskey and Tyler Cowen, cognitive psychologist Steven Pinker, and economist and former Harvard president Larry Summers. (*Disclosure:* Lonsdale is on the board of the Foundation for Research on Equal Opportunity, where I am a senior fellow.) Though Kanelos doesn’t say it, the involvement of these individuals is likely to help UATX compete for students with America’s most prestigious universities.

But competing with the Ivy League doesn’t mean

becoming like the Ivy League. UATX has already laid out the model for its bachelor’s degree, which diverges from the traditional college experience in key ways.

During their freshman and sophomore years, UATX students will read “foundational” texts in small-group seminars and lectures. The junior and senior years, by contrast, will see students develop specialized knowledge, working directly with established scholars in their chosen area of concentration. Students will also produce a “Polaris Project,” which provost Jacob Howland describes as “a four-year educational through-line that calls on students to build, create, or discover something that serves the human good.”

Kanelos also hopes to dispense with some of the sacred cows of higher education. UATX will not require faculty to hold doctorates, nor will professors earn tenure. Many criticize academia’s professor-for-life model on the grounds that it means instructors have little real-world experience. And the school’s tenure-free policy hasn’t dissuaded potential professors; UATX has already received about 1,000 applications from prospective faculty members for 15 to 20 initial positions. Many are attracted by the unique pedagogical model at UATX and the chance to escape censorious environments at their current universities.

The school will enroll its first undergraduate class of 100 freshmen in fall 2024 (applications are currently being accepted on a rolling basis). The school will launch with just one undergraduate degree—a B.A. in liberal studies—but students may choose from three “concentrations” in STEM, the social sciences, and the humanities.

Sticker-price tuition at UATX is set at \$32,500—a steep figure, but far lower than most elite private universities. Moreover, the inaugural class at UATX won’t have to pay it; the first hundred students will receive four-year full-tuition scholarships, on the logic that the school is not yet accredited and thus students are taking a risk on a new and unproven institution. The school has not yet determined tuition rates and financial aid policies for future classes, though it has plans to incorporate need-based grants.



*Pano Kanelos, formerly of St. John’s College in Maryland, joins the University of Austin as its first president.*

ILANA PANICH-LINSMAN / REDUX

## The First Step: State Authorization

Colleges and universities in the United States are overseen by three entities known as the regulatory triad: authorization agencies run by state governments; membership-based private, nonprofit organizations called accreditors; and the U.S. Department of Education.

State authorization is the first point of entry for new institutions seeking to become universities. Even if a school has no interest in accreditation or federal funding from the Department of Education, it still must have approval from the state government in order to recruit or enroll students. Usually, an entity cannot even call itself a university unless it has state authorization.

The University of Austin went by the moniker “UATX” before Texas’s state authorizer, the Texas Higher Education Coordinating Board (THECB), green-lighted the school in October 2023.

In practice, this means that state authorizers usually evaluate aspiring schools on how similar they are to existing colleges. But new entrants to a market often want to innovate, and they will sometimes depart from the standard model to reduce costs or increase efficiency. A new school might view requirements that faculty hold terminal degrees as outdated or counterproductive—but such a policy might also attract increased scrutiny from the state authorizer.

Indeed, state authorizers’ tend to approve institutions that not only look similar to existing colleges—but often *are* existing colleges. This is true in Texas as well as nationally. According to federal data, many of the “new” colleges that have formed in Texas in the last quarter century are new campuses of existing systems like the University of Texas or Texas A&M University, along with a handful of specialized institutions such as divinity schools.

But there is arguably no recent precedent for a large, independent, degree-granting nonprofit institution such as the University of Austin, at least not in Texas. Michael Shires, chief of staff and vice president of strategic initiatives at UATX, says it has been 60 to 70 years since the Lone Star State approved a new institution in the same category as UATX. (THECB, which formed 59 years ago, was not able to confirm or deny that timeline.)

Many state governments, Shires told me, “have layered a lot of new rules and regulations on top of the law” since the last time they chartered a new nonprofit university.

“One of the challenges we had was finding paths and interpreting the code with all these new layers on top of it for us to be able to launch a new institution.” The chapter of the Texas state code governing state authorization is 80,000 words long.

The University of Austin’s initial application to THECB was 1,200 pages long, plus 700 to 800 pages of supporting documentation. After the school filed its application, the first response from THECB “was a request to break our application into smaller pieces, because their computers couldn’t open this massive 1,200-page document with all the graphics and tables that were in it,” says Shires. “We had to break it into six pieces so that they could actually open the files.”

The timeline for state authorization can be frustratingly long, as UATX discovered firsthand. The school officially launched in November 2021, submitted its application for authorization in December 2022, and received approval in October 2023. That amounts to a 10-month official process for authorization, on top of more than a year of preparation. Nationally, initial approval timelines can vary, but 10 months is not atypical.

Many states also have caps on the number of institutions or programs they will authorize per year. UATX, for instance, was only allowed to launch with a single degree program.

Shires emphasizes that the state of Texas was a “partner” through the authorization process. But it was still drawn out, “and time equals money,” he says. “That’s one of the really big lessons about starting new universities. It’s a very expensive process.”

Texas was at least open to the idea of a new university. Many other states are

indifferent to new colleges at best, and the state authorization system is an afterthought. According to researcher Molly Hall-Martin, some states have just one full-time staff member devoted to authorizing new colleges and universities. In the median state, funding for the state authorizer amounts to just 0.04 percent of total state support for higher education. Many institutions quietly complain that they receive little help from state governments in navigating the authorization process and that authorizers are unresponsive to their questions.

In some cases, once a new college has authorization from the state government, the institution can stop there.



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But most of the time, colleges must take an additional step: accreditation. Recognition from an accreditor is required for federal funding, and graduate schools typically only accept students who have graduated from an accredited college. To be competitive, new schools need both federal funding and the assurance that their graduates will be eligible for grad school. Moreover, most state authorizers require schools to be accredited or on a path to accreditation as a condition of initial authorization. So, in practical terms, state authorization is only the first hurdle aspiring universities need to clear.

### The Accreditation Headache

Accreditation is an odd system. The government has essentially outsourced to private organizations not only regulatory responsibility but also the role of gatekeeping access to taxpayer dollars.

Accreditors first formed in the 19th century as voluntary associations to help schools develop and share best practices. But over the years, both states and the federal government came to rely on accreditors to determine which colleges have the right to exist.

The federal government requires colleges to be accredited to access some of the more than \$110 billion per year in grant and loan aid. While some colleges have managed to get by without federal funding, it's hard for most to be competitive without it. But even setting aside the issue of federal aid, forgoing accreditation is not an option for most aspiring schools. Thirty-nine state governments, including Texas, require degree-granting colleges to have accreditation as a condition of authorization.

The University of Austin is not yet accredited. While

the school received initial authorization from THECB in October 2023, Texas requires new schools to secure full accreditation from a recognized agency within eight years. UATX started the process of seeking accreditation this year. (The school has not yet disclosed which accreditors it is considering.) It hopes to have full accreditation, and become eligible for federal funding, in four to seven years.

"You need millions of dollars in your pocket to [receive] accreditation," says Shires. "We have invested significantly in people who can navigate the accreditation process." Shires himself is one of those people, having previously helped Pepperdine University in California launch its first online program. While UATX can afford the costs associated with accreditation, Shires notes that the resources being devoted to that process could otherwise be allotted to teaching.

Even long-established colleges must devote considerable resources to accreditation. Each accreditation cycle costs a college north of \$300,000, estimates researcher PJ Woolston, now a vice chancellor at Indiana University. These expenses include direct costs such as membership dues, outlays for conducting a comprehensive self-study, and having to pay for accreditation-agency employees to visit and evaluate the campus. But the more significant component of these costs, according to Woolston, are the indirect expenses incurred from having faculty, administrators, staff, and students spend time on the accreditation process.

Accreditation and re-accreditation typically demand the involvement of dozens of these individuals, amounting to thousands of person-hours. "The cost in time is much more of a burden than the financial cost," commented one college administrator Woolston surveyed.

"There is a constant and looming presence of accreditation regarding much of what we do," observed another.

Schools that lack the national profile and considerable resources of UATX will face a particularly steep climb. But for UATX, the biggest concern is that the requirements of accreditation could prevent the university from innovating to bring down costs and improve quality.

Shires says that accreditors tend to do a lot of benchmarking. "They ask, 'What does your institution look like relative to everybody else?'" Accreditors may press UATX to make their college conform to the practices of similar schools: if a peer institution like Baylor University has X number of administrators in Office Y, then UATX might need to ensure it has the same number.



UATX is renting part of the historic Scarbrough Building in downtown Austin as its initial campus space. The 1908 art deco building once housed a department store.

JULIUS SHIEH / THE TEXAS TRIBUNE



That approach does not dovetail with the UATX model. “We’re trying to look different than other institutions—to blow up the departmentalized administrative process and create a more coherent whole,” Shires notes. “It’s very important to us that we’re allowed to hold on to that mission, and that we’re not going to be expected to go out and match whatever Baylor or UT is doing.”

UATX’s policies on faculty present another possible conflict point with accreditors. The Southern Association of Colleges and Schools, an accreditor which has historically overseen Texas universities, requires the applicant institution to justify “the qualifications of its faculty members” and implement “appropriate policies and procedures for preserving and protecting academic freedom.” Traditionally, universities have satisfied these obligations through terminal-degree requirements and tenure, but UATX plans to address them through other means. For instance, faculty members will have a central role in the school’s governance, giving them more power to preserve their intellectual freedom, even in the absence of tenure. An independent panel—an academic “supreme court” in the words of Niall Ferguson—will protect students and employees who believe their academic freedom has been violated. But UATX’s alternative policies in these areas could face heavy scrutiny from the school’s eventual accreditor.

It would be far easier, from a regulatory perspective, for UATX simply to do things the way they’ve traditionally been done. Most accreditation commissions, which decide whether to recognize new institutions, are stacked with representatives of colleges that are already accredited by those agencies. As a result, accreditation decisions are made with an eye toward what incumbent universities are already doing. Aspiring schools must effectively receive permission from their potential competitors in order to operate.

The burdens of accreditation might be justified if accreditors effectively enforced best practices that ensured student outcomes are satisfactory. But analyses have found that accreditors seldom discipline colleges for performing poorly on objective metrics such as graduation rates. They also countenance thousands of degree programs where students tend not to earn back the cost of tuition. It’s not clear that accreditation is effective at protecting students

from low-quality higher education, even as it keeps new institutions out of the market.

### Why We Need More Colleges

State authorization and accreditation represent steep barriers to entering the higher education market. Moreover, the market for traditional higher education is dominated by colleges and universities that have existed for decades, if not centuries. Among those attending nonprofit, degree-granting colleges, 98 percent of undergraduates go to a school that formed before 2000, according to federal databases. More than 90 percent attend a school that formed before 1980.

In 1990, there were 3,216 degree-granting, nonprofit colleges in the U.S. By 2021, that number had slipped down slightly to 3,208. But over the same three decades, the ranks of undergraduate students enrolled in those colleges increased from 11.8 million to 14.7 million, a rise of 25 percent.

Economic theory teaches us that a surge in demand for a product or service should induce more providers to enter the market, limiting long-run price increases. But the rise in demand for traditional higher education has not triggered an influx of new schools. Instead, students crowd into existing schools. Admissions rates have declined, and schools have gained more pricing power. The stunning rise in college tuition over the last three decades is in large part a byproduct of this constrained market.

It may seem odd to worry about barriers to entry in higher education, given that college enrollment is now declining and several colleges have closed their doors. But one big reason for falling enrollment is disillusionment: a major-

ity of Americans no longer believe a four-year college degree is worth the cost. A surge of new institutions, with cheaper models and a more reliable value proposition, could attract students back to college.

Existing schools have not increased capacity and programs to provide students with the types of education they want most. Students typically tell pollsters that they attend college to secure a better job and increase their wages. Consistent with these findings, the popularity of high-paying majors such as engineering and computer science has been increasing.



**The university’s  
tenure-free alternative  
hasn’t dissuaded  
potential professors;  
UATX has already  
received about 1,000  
applications from  
prospective faculty  
members for 15 to 20  
initial positions.**

But schools have not expanded those majors enough to meet demand; instead, universities have restricted the number of students who can declare them. A study by economists Zachary Bleemer and Aashish Mehta reveals that among five high-earning majors (computer science, economics, finance, mechanical engineering, and nursing), three-quarters of departments at America’s top 25 public universities impose binding limits on the number of students who can choose the major. These restrictions are only becoming more common. Students shut out of those majors must choose less lucrative fields—and face a major salary penalty.

The problem even extends to community colleges. Economist Michel Grosz has shown that when local labor-market demand increases for a particular occupation, more students enroll at community colleges to train for that occupation. However, the schools themselves do not respond by adding course sections or faculty positions in the relevant discipline, and this failure to adapt constrains their capacity to meet students’ needs.

New colleges could theoretically satisfy student demand for education in fast-growing fields. Innovation often comes from outside the established players in a market. Magazines proclaimed Nokia’s bricklike cell phones the “most successful brand in history” until Apple came along with the world’s first smartphone. But in contrast to the freewheeling technology sector, the higher education market is virtually closed to new entrants who might shake things up. It will remain so unless policymakers tackle the sector’s formidable entry barriers.

### A More Dynamic Market

Starting a new university takes the better part of a decade, sustained commitment from its founders, and anywhere from hundreds of thousands to millions of dollars. The supporters of UATX should be optimistic that the institution will succeed at becoming a full-fledged university. But genuine and lasting change in higher education will require competitive pressure from a plethora of new institutions, not just a handful.

At the same time, state authorizers do have a role to play in ensuring institutions adopt appropriate consumer protections so students don’t fall victim to scams—particularly if those institutions receive taxpayer money. Obligating

schools to adopt tuition-refund policies and requiring that they contribute to funds that make students whole if a school closes—as many state authorizers currently do—are practices that should continue.

But other aspects of state authorization are ripe for reform. Scholars Andrew Kelly, Kevin James, and Rooney Columbus call on authorizers to move away from their “input-based” approach that assesses “whether [an educational] provider mimics traditional models with fidelity.” Instead, schools should supply basic documentation of their plans, demonstrate financial capacity, and agree to consumer protections. Beyond that, authorizers shouldn’t dictate how to be a college. After a school has been active for a few years, authorizers should consider its performance record when making reauthorization decisions.

State governments should also decouple state authorization from accreditation, the most burdensome aspect of higher-education regulation and the most hostile to innovation. An aspiring school that does not wish to seek accreditation or federal funding should still be allowed to exist. As noted earlier, when state authorizers require accreditation as a condition of authorization, they force fledgling universities to ask permission from their would-be competitors—a setup that is obviously a detriment to dynamism.

The standards for a school to tap into taxpayer funding should be somewhat higher than the standards for state autho-

rization. But that doesn’t mean the federal government should continue relying on accreditors to gatekeep access to federal grants and loans. Congress should explore allowing unaccredited institutions with a strong track record of student outcomes to access federal funding, conditional on continued good performance.

The University of Austin’s founders believe that society cannot wait for higher education to solve its own problems. While their case illustrates the hope that disruption may improve the American college experience, it has also illuminated the artificial barriers that hold back competition in the higher education market.

UATX may well succeed. But one new university is not enough.

*Preston Cooper is a senior fellow in higher education policy at the Foundation for Research on Equal Opportunity.*



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