

## **Towards private and independent universities?**

Most organisations have to produce for profit. They are constrained by their environment to do so and, if they fail, the firm (or its management) is forced out of business. In the long run survival depends on satisfying consumer demand or doing so cost-effectively. On occasion production is monopolised, with certain well-known and undesirable side-effects, but provided others can compete the consequences are either short-lived or unimportant. On still other occasions the State monopolises production – for example, university education – and so there is little competition and a very slim possibility of significant new entry from alternative providers not funded by the government.

### **How universities differ**

Of course education (like health) is “different” from other goods and services. The difference is that the consumer – the student – is part of the production process. This severely limits the effective time available to exercise demand. The price charged by universities is substantially below the market-clearing money price. Fees account for a small fraction of income so that alternative rationing devices such as school performance, age or ability to impress an interviewer become important. These tools further limit demand and are suited more to meeting the preferences of the producers than the consumer. The institutional framework thus steers producers to allocate educational resources with criteria very different from those thought desirable and efficient in other industries.

The optimal allocation rule should cater for the preferences of consumers and enable them to exercise their own options, not those of others (and especially not those of the persons providing the service). This impartial objective is attained by the price mechanism, a system which enables minority choices to be met while simultaneously ignoring irrelevant personal characteristics such as sex or race which can influence judgement.

### **What can be done about it**

Economist Sir Alan Peacock argued, in relation to universities, that “the more the allocation rule ignores the preferences of consumers, the more animosity there will be between consumers and allocators”. Armen Alchian of UCLA pinpointed the problem: “without a private profit-seeking system and without full cost tuition, the demand for tenure increases and the cost of granting it appears to be cheaper because the full costs are not imposed on those granting it”. Academics can engage in “on the job consumption” at low cost, allowing consultancy or research to take an inappropriate priority over teaching. One writer says: “Professors have, for these many years, given up altogether even the pretence of teaching.” Strong words, taken from Adam Smith’s *Wealth of Nations* in a reference to Oxford University. The reasons for Smith’s invective were not the sloth of the academic, but the circumstances which permitted it. Smith argued that the rewards and penalties in education are inappropriate. Academics’ salaries are “derived from a fund altogether independent of their success and reputation in their particular profession.” They are neither performance-related nor consumer-responsive. Indeed, Smith continued, education outside of government-funded institutions is “generally the best taught. When a young man goes to a fencing or a dancing school, he does not always learn to fence or to dance very well, but he seldom fails of learning to fence or to dance.”

Leading universities worldwide are increasingly changing environmental constraints so that producers adjust their behaviour. For example, moving away from dominant or single source funding as rapidly as possible can bring a number of major advantages. It increases the probability that freedom of speech on campus can be maintained.

### **What about academic freedom?**

A paradox I have always failed to resolve is the simultaneous clamour of many academics, in SA and elsewhere, who demand the “right” to free speech but are irritated if their dominant funder (government) either threatens to reduce its support or intervene in other ways. He who pays the piper usually wishes to

call the tune; a plurality of funding sources is the only way to avoid the threat of resource flows being curtailed if the university or its staff or students broadcast opinions not universally acceptable.

Universities should also rely for a major source of finance on student fees, which should more accurately reflect both the cost of tuition and the intensity of student demand. Producer responsiveness to student (and national social or economic) requirements would then necessarily rise. (Where students would obtain their fees from is a separate issue.) Another matter where universities can become more market-responsive is in the growth of salary flexibility. Lecturers in low-demand subjects such as Sanskrit should not be paid the same as lecturers in high-demand areas like economics. The star should not be paid the same as the academic hack, nor the drone as the worker bee. Staff reward, management patterns and staff usage should become more flexible. In fact, more and more good universities (including Wits) are responding to market demand in this way. On the supply side the previously dominant peer review is being reduced to the areas (e.g. research performance) where only fellow suppliers are competent to judge.

### **Privatisation**

Some have suggested that the Wits Commerce faculty be spun off as a separate university. Financially this might just be possible given the existing government funding pattern. But the institution as envisaged would no longer have the universal coverage of disciplines implicit in the word university. Students, I believe, want to be part of a broader community of scholars than merely those in the commerce faculty. The intensity of their demand for places in commerce at Wits compared to that for specialist commercial colleges or professional institutions suggests that the burden of proof is on those who believe otherwise. The existence of these alternatives suggests, of course, that there is a heterogeneous market out there, and that existing institutions must not become complacent. Indeed, the establishment of “crammers” for correspondence degrees where the student pays not only the “cramming” fee – at commercial rates – but also the fees to the university providing the correspondence degree suggests that the Wits Commerce faculty could easily expand still further. This might be no bad thing for those of us who believe in the university as not only universal but as an essential part of civilisation and its continuing enhancement. Our role is to pass on knowledge through teaching and learning, and, importantly, further to advance today’s knowledge. Inevitably this implies that the university must be large enough to gain not only economies of scale but also economies of scope, i.e. where it is cheaper to produce goods jointly rather than separately.

### **A market test – not affirmative action**

Learning involves more than commerce. I and my fellow students and colleagues are privileged to participate in the exercise some arithmeticians call cross-subsidisation of areas such as music and fine arts. Those with a less philistine bent would call this advancing the cause of civilisation. Applying a market test to applicants and anonymous examinations to graduands always has been and always will be the only way to stop the Goddess of Justice taking a peek from under her blindfold at the colour of a scholar’s skin.

*This Briefing Paper was written by Duncan Reekie  
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