

University research

The need for paying customers

Sinclair Davidson

James Buchanan—the founder of the Public Choice School in economics—has recently re-released his autobiography. First published in 1992, *Better than plowing and other personal essays* related the story of how a poor farm boy from Tennessee made his way in the world and had come to win the economics Nobel Prize. This year, Buchanan published *Economics from the outside in: 'Better than plowing' and beyond*. The first twelve chapters are reproduced from the 1992 book and another four chapters make up the new book. As always with Buchanan, it must be read carefully to capture the full meaning and nuance.

Do academics add value?

Buchanan makes the argument, in his final chapter, that 'there is no ordinary *quid pro quo* between the academician and the institution, organization, or person for whom he nominally "works", and who pays his salary...' This is not an unusual attitude amongst academics. Henry Rosovsky, emeritus professor and former Dean of the Faculty of Arts and Sciences at Harvard University, relates a story about the famous historian Ernst Kantorowicz (1895–1963) who refused to take a McCarthy-era oath of loyalty required by the California University system. Professor Kantorowicz refused not because he held strong views about McCarthyism itself, he may well have, but because he argued that professors should not be considered employees in the usual sense. Rosovsky opines that 'professors have the income of civil servants but the freedom of artists'.

Buchanan is responding to the argument put by the late Robert Staaf of Clemson University, 'that

academic life is fraudulent, that all of us are engaged in a gigantic shell game aimed at the exploitation of the general public'. Buchanan, of course, does not agree with Staaf—academic life is not fraudulent—but, more importantly, he also does not agree with the more common arguments for public funding of universities and public research. Buchanan argues that the notion that academics produce research as a by-product of advanced teaching is an argument that 'must be rejected out of hand'. The academic, Buchanan says, struggles with ideas themselves and observers (that is, students) are irrelevant to that struggle.

Another argument that Buchanan partially rejects is the well-known down-stream benefits argument. Some practical benefit will come out of university research at some point in the future and so we should subsidise it now. (I wrote about the myths of infinite return and unfettered research in the December 2006 issue of the *IPA Review*.) Buchanan argues that this argument could only be true in the sciences, but never in the humanities. In the end, Buchanan argues that people aspire not to satisfy their existing wants, rather they aspire to better wants and this is the role of the 'thinking classes' and 'scientist-philosophers'—helping people to aspire to better wants. Consequently, 'society at large' is willing to support universities.

This is a fine argument, to be sure; it may even be correct. The difficulty relates to the notion of 'society at large'. How individuals choose to spend their own after-tax income is their own business. Universities, however, expect to be supported out of individuals' pre-tax income. It is not at all clear that the taxpayer should be funding the idle speculation of academics. This criticism is made somewhat difficult by the fact that Buchanan himself has been unusually prolific in his career and is widely considered to have been an excellent teacher. As he says, 'The fact that my interests were always well within the boundaries of academic propriety gave me the sense of openness required for energized effort'.

Adam Smith, an academic for most of his life, had a poor view of universities. He took the view that universities need not be funded by the taxpayer—indeed, he suggests that taxpayer funded universities are likely to do a poor job at educating students. He tells us that professors at Oxford have 'given up altogether even the pretence of teaching'. Smith held the view that universities should teach.

In order for people to earn an income, Smith argued that they

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need to ‘execute a certain quantity of work of a known value’ and, in a competitive environment, must do so ‘with a certain degree of exactness’. As regards academics, Buchanan seems to disagree with this statement. How would anyone ever know the value of academic work? This, of course, is always an important question. In the absence of a market, value can never be determined with any accuracy.

Smith then explores how academics might be monitored. The most obvious form of monitoring is self-monitoring, or peer-review as it is known in academic circles. Peer-review for research purposes probably works better than any other method, yet it is not without its problems. Yet, in general, as Smith suggests, academics are likely ‘to be all very indulgent to one another, and every man to consent that his neighbour may neglect his duty, provided he himself is allowed to neglect his own’.

A second mechanism whereby universities and academics are monitored is by some external body such as government. Here all the external body can do is specify the hours taught or the subject taught. Brendan Nelson was opposed, for example, to ‘cappuccino’ subjects. The external body cannot actually ensure diligent teaching. Smith argues that this type of monitoring will be ‘exercised

both ignorantly and capriciously’.

Paying customers, however, are unlikely to tolerate poor behaviour. Smith makes the point that teaching is best where there are no public institutions. For example, when a young man ‘goes to a fencing or a dancing school, he does not indeed always learn to fence or dance very well; but he seldom fails of learning to fence or to dance’. In short, if people’s livelihood is independent of their efforts, they will often—but not always—tend to do less rather than more. Smith makes this point very strongly in the case of universities.

The possibility of paying customers

Paying customers are a foreign concept at Australian universities. Indeed it is mostly foreigners who pay for their university education. The notion of fee-paying Australian students has met with much resistance from academics, academic unions and some political parties. There are many arguments against the notion that students, or their parents, should pay for their own education. Yet few ever consider that paying customers would demand better education.

George Stigler has argued that ‘all public aid to higher education for teaching should be given to students,

not to universities’. Stigler, known for his dry wit, recognised this to be a ‘dangerous proposal for what the economist calls “consumer sovereignty”’. Some might be tempted to argue that the Higher Education Contributions Scheme (HECS) is indeed such a proposal. That, however, is not the case. HECS is a loans scheme, not a voucher scheme. The government strictly controls the number of HECS places and the distribution of those places.

Universities should have to earn their way in the world by collecting money from paying customers—just like every other organisation does. Some of those paying customers may be happy to pay on the basis that ‘philosopher-scientists’ create better wants. Other paying customers may be happy to pay for the education they receive. Importantly, satisfied alumni are likely to make financial contributions to their alma mater, whereas dissatisfied paying customers may make no such contribution. Indeed, HECS may crowd out alumni donations in Australia. Although Australian universities have commercialised over the past 20 years, consumer sovereignty is still to be introduced.

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