

## **AUSTRALIAN UNIVERSITIES: MOSCOW ON THE MOLONGLO**

Published in *Quadrant* Magazine, Vol XLIX, No 11, November  
2005, pp.7-20

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The Soviet System crashed in 1985, thanks principally to Mr. Gorbachev. I shall call it the “Moscow System.” It became clear – at least to those to whom it had not been clear before – that the Soviet central planning system had been a failure. There was apparently no one left to defend it. Thus, it was a surprise that, just after that time, a mini-version of this system, with all the mentality that goes with it - but applying only to higher education - was apparently being constructed in Canberra. I shall call this little capital city *Moscow on the Molonglo*, the Molonglo being the river that runs through Canberra, and which was dammed to make the Canberra lake.

### **The Dawkins Revolution**

Before one can analyse and criticise, one must understand what has really happened. Hence one must begin with history. From 1987 until now there have been seven Commonwealth Ministers of Education, but just two of them made revolutions, namely John Dawkins, who was Minister for Employment, Education and Training in the Hawke Labor Government from 1987 to 1991, and Brendan Nelson, who became Minister for Education in the Howard Coalition Government in 2001. I begin, then, with the Dawkins Revolution.

Insofar as a revolution can have legs – at least for exposition – it had five legs.

Firstly, there was the abolition of the so-called “Binary System”. In 1988 higher education had consisted of two parts, namely the 19 Universities proper, and the others – namely 57 Colleges of Advanced Education and Technology Institutes. The first were meant to be for “academic”

education and research, and the latter for more practical or vocational teaching. In total they had roughly equal numbers of students. Now all became Universities or parts of Universities. They became parts of what was called the Unified National System.

Secondly, most of the smaller Colleges – and that was actually almost all of them – were required to merge with each other or with some university so as to make larger units. If they had below 2000 students they could not be part of the new Unified National System (and so might not get Commonwealth Government financial support), and even student numbers below 5000 were thought undesirable. In the language I am familiar with from following US corporate developments, there was a “mergers and acquisitions” boom. For some this was an extremely painful and dislocating process, as it often has been for private companies. Transition costs in such a “revolution” cannot be ignored. When it was all over the Unified National System consisted of 36 (later 38) universities.

These two developments – the end of the binary system and the amalgamations - were radical structural reforms and have not been reversed. The consequences, good and bad, are with us now. No one has done a thorough analysis of why this happened and what the effects have been. Such an analysis should be done. Have there been significant benefits from economies of scale – as was predicted in the 1988 Dawkins policy statement – and to what extent have they been balanced by higher managerial costs and other disadvantages of large scale and conglomeration? I have looked at some cases, mainly in Victoria, and each university seems to have its own story. And to what extent has it mattered and been beneficial that the staff of a former College of Advanced Education has been expected to “do research”, since it was now part of a “University”?

These two radical developments are now with us – often after a long process of adjustment - and I would not advocate a “counter revolution”, which would be just as painful. Some adjustments may be appropriate, but I will not discuss these two developments further in detail, but move on to the other three “legs” of the Dawkins Revolution.

The third “leg” was the centralisation and politicisation of higher education policy. This I will discuss in more detail below. In particular, the Commonwealth Tertiary Education Commission was abolished and Universities had to deal direct with the Department of Education. Thus the Minister was fully in control. The Commission had been an

intermediary between the Minister and the universities and the other higher education institutions.

The fourth “leg” of the Dawkins Revolution was the establishment of the Higher Education Contributions Scheme (HECS). This was an excellent development, and the idea has indeed been copied in Britain and some other countries.

The fifth “leg” was the opening up of Australian universities to the foreign student market. This market has grown rapidly world wide and it was inevitable that we would participate in it. Indeed, we would have been fools not to do so. The effects have been remarkable, though there are some problems. Again, I shall come back to it later.

### **The Squeeze**

Next I come to “The Squeeze.” The main story is simple. There was a big increase in places for higher education students but not a commensurate increase in public spending on higher education. In 1987 there were about 400,000 domestic students and by 2000 there were nearly 600,000. (In 2004 there were 711,000.) This increase (which was even more than expected) was desired by the government, above all because more and more school children had completed their 12 years of school, and were wanting to go on to higher education. Yet there had not been enough places for them. The increase in student numbers was generally welcomed by the universities. In addition, students on average spent longer at higher education (for example, taking two degrees instead of one, or taking three-year degree courses rather than two-year diploma courses), and finally because there were more postgraduates and more older persons going to higher education. Basically there was a transition from an “elite” system to a “mass” system. This was central to the Dawkins programme.

Public spending on higher education did increase. It was supplemented by government income from HECS payments by students, but this was not enough to avoid a squeeze. The inadequacy of the increase in public spending was explained by the usual budgetary constraints of governments and by the large increase in student numbers. There were many demands on the government’s finances, and in the minds of the public, and thus of politicians, universities were not a high priority. Academics with left-wing inclinations always have difficulty understanding this. Surely, they would say or think, that taxes can be

raised or some other expenditures of government could be reduced. It is all the fault of “economic rationalists” in Canberra. Unfortunately, the people and the politicians wanted more students to go to universities but thought the universities could do with some squeezing.

Let me also quote from two knowledgeable authors, Peter Coaldrake and Lawrence Stedman, in *On the Brink. Australia's Universities Confronting their Future*, 1998. “There is a brutal indifference by senior politicians and bureaucrats to the inner workings of universities; they do not want to tell academics how they should go about their job, only that they should do it with less money” Actually I don't think this was quite true. Education Ministers, especially Messrs. Dawkins and Nelson, did want to tell universities how to go about their jobs and become more “productive”. But the general thought was that universities could become more efficient, and this squeeze was just a challenge for them.

Here I should note the following. The government did not offer universities, whether as a group or individually, a given sum of money and then allowed them to take as many or as few students as they chose. Thus the squeeze did not take the form of being just a “budget constraint”. Rather, the government fixed the funds provided *per student*, and that sum was reduced in real terms, or was not raised sufficiently to allow for cost increases. That was the squeeze. Reducing the number of students, even if it had been permitted to the universities, would not necessarily have helped them. Let me add here that I have been referring so far only to domestic students, and specifically to those who are subsidised by the government – which has been by far the largest proportion.

How did the universities adjust? In fact, how were they saved from bankruptcy? There were two ways.

Firstly, the student-staff ratios were increased drastically. For the system as a whole the student-staff ratio was about 13 in 1988 and by 2000 was 19. While some people in government may have thought of that as an efficiency improvement, it really led to a reduction in the quality of the product (teaching services) that the universities produced. With the government-determined price reduced, the quality of the product had to fall. Students got less personal attention, lecture rooms were overcrowded, and so on. This rise in the student-staff ratio was a subject of great complaints from academics, as well as from students themselves.

Secondly, the foreign student boom saved the situation. Foreign student numbers rose from 26,000 in 1991 to 93,300 in 2000. And the number has increased hugely since then, to 228,000 in 2004 (which was 24% of all university students). This boom resulted both from favourable circumstances internationally and from remarkable entrepreneurial initiatives in many universities. Probably a net profit was generally made from the foreign students, though this was not always certain, bearing in mind the costs. Income from foreign students thus cross-subsidised domestic students. In addition there was a modest increase in full-fee paying domestic students, mostly postgraduates and students taking special courses.

There has been a lot of talk about universities getting more income through commercialisation of research and consultancy services. But by 2002 these accounted on average for only about 5% of a university's revenue. Foreign students did indeed save the situation; they provided 15% of university revenues.

Basically the squeeze resulted from the government's budgetary constraints, as it perceived them, coming up against its desire to have many more domestic students in higher education. To that must be added a reluctance to charge high fees to domestic students. Thus a squeeze was inevitable. One result was a long-term decline in the pay of academics relative to average weekly earnings in Australia. This decline has been about 25% since the early eighties.

Here I must mention the special and rather indirect (even sneaky) way in which the budgetary squeeze came about from 1995. Total government grants to universities have been adjusted annually to take account of cost increases. In earlier years all cost increases resulting from centrally determined university wage increases were automatically covered by the government. But the Labor government instituted enterprise bargaining, which meant that, in theory at least, each university could negotiate separate wage increases with the relevant trade union. The government then created an "indexation rule" by which its grants to universities were indexed to a combination of the cost of living and a so-called "safety net adjustment" (the latter used for the lowest-paid workers). This rule was continued by the Coalition government that assumed power in 1996. But average wages rose faster than this index. In particular, Australian wages, as measured by average weekly earnings rose substantially relative to the cost of living. Since about 75% of university costs consist of wages, and university wages, which had in any case been lagging behind, would need to rise in line with Australian average real wages –

and enterprise bargaining would surely lead to that - university cost increases were not fully covered by this indexation rule.

After several years of this inadequate rule the effect was very significant and explained much of the squeeze since 1995. From 1996 to 2000 student numbers (domestic plus foreign) increased 15% but academic staff actually declined 1%. Surely, this was explained by the indexation rule. Of course, underlying this technical point was the basic attitude of the government. Increased spending on universities was not a high priority, and a bit of pressure on universities to become more “efficient” was all to the good.

Finally, there was another factor explaining the squeeze that was felt by university teachers and that was the cause of so many complaints. There was a shift of expenditures away from academic staff towards non-academic staff and various “other expenses”. There were new administrative tasks related to various income-generating activities, and, in particular, more support staff resulting from marketing and other activities connected with the foreign student boom. In addition, there were the administrative costs resulting from the amalgamations and from the demands of the Canberra bureaucracy. The following figures refer to the change over the ten years from 1991 to 2000. For all the universities combined, operating expenses in nominal terms for academic staff rose 58% but for non-academic staff rose 72%, while “other expenses” rose 140%. The number of teaching staff fell 11% (while student numbers rose 31%). Non-academic staff numbers, by contrast, rose 16%.

## **The Nelson Revolution**

We have had fifteen years to evaluate the Dawkins Revolution. One can judge it not by what was said in advance but by what actually happened. By contrast the Nelson Revolution – if indeed it is a revolution – has just begun and one cannot really be sure what it will lead to. Dr Nelson has been Minister for Education in the Coalition Government since 2001. The principal surprise is that, in crucial respects, he has carried micro-management and Moscow-isation further. This is not something that might be expected from a minister in a supposedly right wing government that, on the whole, favours free markets. But he has also modified HECS in highly desirable ways. The potentially most radical move is to open up the higher education market in Australia to private providers by extending HECS to them. He has actually been moving the Australian system both further towards Moscow and away from it.

## **The Higher Education Contributions Scheme (HECS)**

I now come to HECS, introduced during the Dawkins regime. Here was a really brilliant idea. For eligible students higher education would be free, but they would incur a debt that would only be repaid later if and when their incomes were above a certain level, and over a long period. Repayments would depend on their incomes. Repayments would be collected by the income tax authorities.

We did not really owe this innovation to Mr. Dawkins, but it was implemented during his reign. Government-guaranteed loans to finance student fees have long been available in the United States. But they have not been “income contingent” – that is, repayment was not related to later income. That idea was once suggested by Milton Friedman, but it was first implemented in Australia. It was proposed by the Wran Committee, and crucial roles were played by Professor Bruce Chapman of the Australian National University and Dr Meredith Edwards, then a senior public servant. Now it is being introduced in other countries, notably Britain.

The particular attraction of the scheme is that one could have more students – eagerly desired by the government - even though the government would (eventually) not have to pay as much for higher education as when higher education was completely free for students. Yet, almost miraculously, students eligible for HECS would get a free education, just as in those wonderful post-Whitlam years. They would pay only when they became reasonably well off later, which should result from their studies. Even a student coming from a poor family would not be prevented from going to university for fear of incurring a high debt, because she or he would only repay that debt if or when she or he is no longer poor. It solves the “access” problem that student fees would otherwise cause. Of course, a problem would still remain for potential students from poor households because their living expenses – and indeed their foregone income – would not be financed. In principle, borrowing for living expenses could also be included in the HECS scheme, as has been proposed in Britain.

As originally implemented HECS did not actually create a “market”. The reason is that the payments that universities received for HECS-eligible students came wholly from the government as subsidies, and had no connection with the debts that the students incurred. A partial – but still

incomplete – step to the market took place only this year, thanks to Mr. Nelson. This is complicated. There are now three categories of undergraduate students. (There are different arrangements for postgraduate students.)

First, there are foreign students who pay full fees charged by universities, as high or low as these choose, and with no restrictions by Canberra on their numbers. This is the pure market part of the system.

Second, there are some domestic undergraduate students who also pay full fees, just like foreign students, but whose number is limited for any university in the Unified System to no more than 35% of the total number of domestic students in a course. Here the important development owed to Mr. Nelson is that these students can also access something similar to HECS, namely FEE-HELP, and this is likely to make this full-fee category much more attractive. (Earlier, education Minister Kemp had introduced such a scheme for full-fee paying postgraduate students.) For FEE-HELP there is a limit to the total debt that can be incurred, namely (at present) \$50,000. That limit may turn out to be significant.

Finally, there is the most important category, namely “Commonwealth-supported” (or “HECS-eligible”) students. This is the largest group of domestic students. For these students the universities receive both subsidies direct from the government (which I describe later), and in addition receive fees from the students direct or from the government on behalf of the students. These fees are not freely set, but have maxima established by the government. The maxima were raised 25% by Mr. Nelson, an admirable decision. At present most universities have set them at the maximum. They are well below the full fees that foreign and some domestic students pay. All these Commonwealth-supported students can use the HECS scheme, called for them HECS-HELP. Finally, there is another new feature of potential importance that I shall discuss later – namely that students at higher education private institutions outside the Unified System can now also use FEE-HELP.

If I were describing the system properly I would explain much more. But there is one matter that puzzled me originally, so let me explain it briefly. Why must some domestic students be in the second (full fee paying) category rather than in the much cheaper third category – which is cheaper because it is subsidised by the government. They may have lower entry (examination) scores. But the main answer is that in the third, cheaper, category the numbers in each university are rigidly controlled,

and students may not be able to get into their preferred choice (or choices) of university. They can by-pass this, and get into a first or (say) second choice university by becoming full-fee paying students. Of course they will still have to meet the minimum entrance requirements of that university.

### **Moscow on the Molonglo**

There have actually been five Ministers of Education in between Messrs. Dawkins and Nelson. But there are four ministers that matter for this story, namely *Comrades* Dawkins and Nelson and *Adam* (for Adam Smith) Dawkins and *Adam* Nelson. Both ministers have moved the system both towards Moscow and towards the market. In the case of the Dawkins Revolution, the first three legs were brought about by Comrade Dawkins and the last two - HECS and the opening to foreign students - by Adam Dawkins. Recently both Adam Nelson and Comrade Nelson have been busy. Adam Nelson has improved the HECS scheme by establishing a direct connection between the fees universities charge and the fees students actually pay, and also by adding FEE-HELP. At the same time Comrade Nelson has been micro-managing. I begin here with the comrades.

The idea that the management by government of the higher education system since the eighties or nineties is reminiscent of the Soviet Union's central planning system is not new. Britain has seen changes similar to those in Australia. In Britain the new system has been called the "audit society". Furthermore, some degree of centralisation and politicisation of the university system has not been unique to the Soviet Union or what I have called the "Moscow System". It could also be found in several continental European countries, and no doubt others as well.

There are really two distinct features of the Moscow system. One is centralisation and the other is politicisation. In principle one can have the first without the second. Indeed, before Dawkins there was some degree of centralisation managed by the Tertiary Education Commission - though probably not as much as we now have. But there was certainly less or no politicisation. The crucial politicisation step was to eliminate this Commission, which was the intermediary between the Minister and the Higher Education sector, and to shift all power to the Minister and his (or her) department. Let me first consider centralisation.

Imagine the Moscow method applied to industry. How many brown shoes shall be produced, and how many black? What sizes? Who shall produce

which, and how many? Are they any good? Moscow Central will need some performance and quality measurements from the various factories. The documentation will pour into Moscow Central. Are the factories managed efficiently? How can Moscow Central handle all that. We can't have all these factories all over the place, and all these different ways of making shoes. Let us have a Unified National System. It is much easier to manage if we just have a few very large factories all following the same rules. So let's get started on amalgamations. (Yes, the first two legs of the Dawkins Revolution reflect the "Moscow mentality")

Anyway, we shall send Inspector-Generals around to every factory and check up on these rather incompetent factory managers. They must provide "Profiles" for us. (That is a unique term that has been used in the Australian system). What are the managers' *Visions* (to produce shoes?), their *Strategies* (to persuade the Inspector-Generals to give them more money, or bigger quotas?). their *Benchmarks*? (to do better than Novgorod?). We shall tell them how much of each kind and size of shoe they should produce. Of course, we don't believe in day-to-day supervision. Once a year is enough.

It is a tough job, and Moscow Central finds that its staff does not stay long in the job. Every year a different Inspector-General comes to a factory, maybe one with experience in supervising tank factories or missile production. But, after all, what do we really need to know about shoes? And how does Moscow Central enforce its will? The old days are gone. No more Gulags. It is just a fair, bilateral, negotiation. In the real Moscow there might have been an element of corruption. But not here, in Australia. You managers (or vice-chancellors, as you call yourselves) are free to do what you like. After all, your factories belong to the States, and not to us. But if you don't agree with us, you don't get your money. Go ahead!

Ah, you might say. There is an obvious answer. Why not sell shoes (or the service of education) direct to the customer, perhaps through intermediaries, such as retail shops? Then we can leave Moscow Central right out of it. That sounds like markets – "neo-liberalism", or "economic rationalism". Still, that might be all right for shoes, or even teaching services. But customers may not have enough money to buy them. So perhaps Moscow Central should just give them some money and let them choose their shoes or teaching services. But there are then further problems, known as "market failure" ..and I shall come to these later.

The Moscow system that we now have in Australian higher education was set up by Comrade Dawkins and has been elaborated since by Comrade Nelson. The ending of the binary system and the amalgamations were part of it, but with these two major structural changes taken as given, the system can now be described as follows.

Every year there is a rather one-sided “negotiation” by the Commonwealth department of education with each university. This leads to a “Funding Agreement and Cluster Profile”. All the fields of study in a university are grouped into 12 “clusters”. For example, “Humanities” is one and “Dentistry, Medicine, Veterinary Science” is another. For each cluster there is a “funding rate” that applies to all universities. This is the subsidy per student (actually per EFTSU or “Equivalent Full-time Student Unit”) that is provided by the government for all eligible students. These are at present almost all of the domestic undergraduate students. This funding rate varies vastly by cluster.

When one adds to these funding (or subsidy) rates the fees payable by or for the student under the HECS scheme, one gets the price that the university receives per EFTSU – that is, the price for the service of teaching that it provides. For most domestic students the maximum fees are also fixed by the government, so we have a case here where the producer (the university) supplies a product (the service of teaching) the maximum price of which is fixed by the government – though varying by cluster and varied year by year. For each university the number of domestic undergraduate places (and also of non-research post-graduates) is also fixed for each cluster. Thus not only maximum prices (which are for most universities the actual prices) but also quantities are fixed. There may be separate quantity figures for different campuses of a university. If a university ends up with more or less such students than the number prescribed (subject to some leeway) it pays a financial penalty. All this only applies to Commonwealth-supported students, not to students that pay “full fees” (like foreign students and a small number at present of domestic students), where there is a separate story

In addition, this year the University will get a 2.5% addition to its total grant per EFTSU if it satisfies two “Protocols”, namely the National Governance Protocol (concerned with governance of the University), and the “Workplace Reform Protocol”(which requires individual Workplace Agreements to be made for each new employee). If the two Protocols are met in 2006 and 2007 the funding increases will be 5% and 7.5% respectively – which are certainly substantial inducements. But there are many other conditions that may or do apply. The lengthy Higher

Education Support Act 2003 mentions many conditions and special grants. It specifies that, to receive any funds, a University must “meet the quality and accountability requirements”. The Act actually lists eleven special grants (and notes the possibility of more) of which an example is “grants to promote the productivity of higher education providers” and “grants to promote equality of opportunity in higher education”. The most recent instrument to influence teaching is the “Learning and Teaching Performance Fund”.

All these are ways of micro-managing or influencing universities not through compulsion - which the Commonwealth cannot do with most universities, because they belong to the States - but through financial inducements. All, of course, involve plenty of paperwork and “performance indicators” But Moscow on the Molonglo is certainly busy.

It all seems quite reasonable if it is desired to supervise and influence universities in detail from Canberra. After all, they get their money from the Commonwealth Government, so naturally they must be supervised and, above all, accountable. Surely also, universities are free to forego the various grants and special deals – and therefore can avoid having to put up with micro-management. If they want more money, they should be grateful that these special deals are available. Here it must be remembered that universities have been kept on a tight financial rein, and (as I have already noted) they are limited in the number of full-fee paying domestic undergraduate students they can take. Hence they need money badly – or think they do – and so feel obliged to accept the special grants and the conditions that go with them.

In June 2005 the Ministers of Education and of Employment and Workplace Relations issued a joint press release about “further enhancements” of the Higher Education Workplace Requirements. At the end they have the following paragraph. “The Australian Government provides around \$8 billion a year in funding to the sector and has a responsibility to ensure these funds are expended efficiently and effectively to ensure the Australian taxpayer is getting value for money.” That is a clear statement of official philosophy. The taxpayers provide the money and we – acting on behalf of the taxpayers – decide what you should do. Is there any argument against this?

Let me say something about politicisation, which has resulted from the abolition of the Tertiary Education Commission and the shift of detailed decision-making from it to the Minister and his department. What is the argument in favour? Presumably the Comrade Ministers prefer to be free

to make decisions. They know best, being elected by The People. Perhaps Comrade Dawkins just did not like the members of the Commission. Does not democracy mean that the people through their elected government should rule – even if they don't necessarily know best? We know the issues here, and they apply to many more activities than the management of universities.

The arguments against such politicisation I will just list. I believe that they have been supported in this particular case by experience in Australia. But I expect to be disagreed with, especially in Canberra.

First, policies tend to shift in response to changing ideologies of governments. The Labor Party government favoured unions and enterprise agreements. The Coalition government does not like unions and favours individual workplace agreements. And it does not even like students' unions, thinking they are much like the Building Workers' Industrial Union. The universities have become the devils' playground for their games. I know, don't tell me....that is democracy! Second, universities in particular electorates will be favoured for political reasons. Third, the members and, above all, staff of the Tertiary Education Commission were in place for some time, and thus accumulated experience and expertise, and some of them had it to start with. The Minister usually does not have it, and, surprisingly, some of the staff of his department often seem not to stay long enough to acquire expertise if they don't start with it. They are part of a broader public service in which interdepartmental mobility and mobility within departments is valued. In any case, too much seems to depend on one person, the Minister. Finally, political lobbying and lack of transparency of decision-making seem to be inevitable results of this situation. I recognise that all of this is really concerned with public administration in general, rather than universities in particular. I do not expect much change.

One has to consider what the alternatives are. Should these academics just be allowed to do what they like with Government money? There are two alternatives to the Moscow method.

### **Moscow, Markets, or Trust: Three Imperfect Methods**

To sort out the issues involved on how decisions about universities should be made one needs a framework. Here is mine. There are three methods or systems - *government* (Moscow being the extreme version),

*markets*, and *trust*. In practice, elements of all are likely to play a part. And all have weaknesses.

As long as public funds are required the government must play a role. This is particularly true for non-commercial research funding. In the case of undergraduate teaching – which is the focus of this lecture - the crucial point is that in Australia it is normally assumed that governments should finance substantial parts of the universities’ teaching services. Hence we have the subsidies (varying by “clusters”) that I have already described. In addition, governments play a role in management of universities and their students because of the limitations – or supposed limitations - of the two other methods, namely *markets* and *trust*.

The weaknesses of government regulation or management are obvious in the present case, especially when the Moscow route is chosen. There are both the problems of politicisation (including excessive dependence on the views of one person, the Minister), and the problems of centralisation. It was Hayek who pointed out many years ago that the central problem of central planning is the information problem. He argued that markets were superior, because decisions are decentralised, and relevant knowledge is widely distributed, closer to the points of decision.

Let me now come to markets. They also have weaknesses – namely various forms of market failure - and this is certainly relevant for the present discussion. Every economist knows about market failure, but not all critics of economists know that economists know about market failure!

Firstly, there is basic or non-commercial research. It leads to increasing the general stock of knowledge which should be available to everyone, but will not be supplied, or not supplied adequately, through markets. In economists’ language, such knowledge is defined as a “public good”. Governments or philanthropists are needed here. In other words, markets cannot meet the need of funding non-commercial research. Universities, funded in the Australian case by government, are needed for basic research, and also some kinds of applied research.

Secondly there are “externalities” of various kinds associated with education, at least when it succeeds in improving the general knowledge, skills, political level, cultural standards, and sense of community, and so on, of the society. That is why education is normally subsidised even though such externalities are hard to measure. It is particularly hard to measure the extent to which externalities differ between various higher education courses. Probably, most people would agree that cultural

courses should, on these grounds, be favoured relative to purely vocational ones.

Thirdly, markets, like governments, do have an information problem. The relevant market here is the market for higher education teaching, where the students are the consumers and the universities are the producers. How are students to judge which universities to go to? And, more important, how are they to judge the contents of courses, given that the whole aim of education is designed to improve their ability to make such judgements. They can only make this judgement after they have gone through the courses, and perhaps some years later.

In the market for goods and services there is the huge industry of advertising, which provides openly biased information. Massive resources go into this industry. Australian universities have moved into the market of foreign students, and a market for domestic students is developing, and will continue to grow. There may thus be a growing move of resources into the advertising and public relations sectors of universities. It is something that disturbs many academics. There are also the costs of misinformation, not just to the students but also in the long run to the universities themselves.

If foreign students come here and are disappointed the effects will be felt with a lag. And there is a particular kind of negative externality. It concerns the Australian “brand.” If some Australian universities disappoint their foreign students, this may affect the attitude to all Australian universities. The Australian Universities Quality Agency should help to preserve Australia’s international reputation in this respect. University advertisers to potential students should bear in mind that if the actual product is markedly inferior to the advertised one, the bad effects will eventually boomerang. Of course, gradually sources of reliable information – including word of mouth – will develop.

On balance I still believe that a competitive market for students, both foreign and domestic, is desirable and the way to go. Above all, it will give universities a greater incentive to focus on teaching quality. Perhaps it has already done so. But the need for truth in advertising should be kept in mind.

It is the third of my three methods of decision-making – *trust* – that needs some elaboration since it is not often made explicit. I might use the alternative term of “professional ethics”. No company can manage without some trust in its staff, and the more trustworthy its employees are

the less supervision and special incentive arrangements are necessary. Trust is very efficient. Normally we trust our GP, and even our solicitor. How would an army manage without trust? And the same applies to a university. Indeed a market can only work without trust if there is more than an army of lawyers.

I raise this issue because of an impression I gathered when studying the history of the Dawkins and Nelson Revolutions, especially the former. Politicians and perhaps senior public servants showed a lack of trust in academics and, indeed, also in vice-chancellors. They must have had, or have observed, bad experiences. What really did Comrade Dawkins discover at the University of Western Australia, where he had studied and also was on the Council? The numerous micro-management interventions, and the growing requirements for performance indicators all suggest mistrust. And in two excellent books I have read, namely *Why our Universities are Failing: Crisis in the Clever Country* by Geoffrey Maslen and Luke Slattery, 1994, and the one by Coaldrake and Stedman that I mentioned earlier, there are pretty clear descriptions of this untrusting attitude.

Going on my own experiences, I am somewhat sympathetic to these negative thoughts. Academics are a remarkably imperfect group of people, not excluding myself of course. Many of them – at least before the Dawkins Revolution – seemed to enjoy their life, and while some of them were doing great work, and just wanted to be left alone to get on with it, others also wanted to be left alone - and did very little. The question is whether we have to check up on and bother everyone in order to deal with the bad cases. In my view the bad cases are normally a very small proportion. The quality of academics depends in the first instance on the appointments process, which in many universities is very elaborate. Beyond that, good teaching and research inevitably require some trust. The endless debates about performance measures – which are always imperfect – remind one that there is no substitute for self-motivated and reliable teachers and researchers. If the appointment process is sound they will also be imaginative and capable. I have seen plenty of good and some bad cases.

If one wants to get a picture of how bad things can be one should read *If the Gown Fits* by A. P. Rowe, 1960. He came from Britain with an impressive record as the manager of a wartime scientific research organization, to become vice-chancellor of the University of Adelaide for ten years. Clearly he was a “stirrer” who did not fit into the comfortable, unimaginative Adelaide environment at the time. I read this book when it

came out (when I was on the faculty in Melbourne) and it certainly rang true and impressed me – though Melbourne was indeed better.

Trust is not incompatible with the market. Indeed, with trust the market works better. Trust (or professional ethics) is implicitly the alternative that most academics prefer to universities being ruled from Moscow on the Molonglo, the latter with frequently naive interventions and use of very imperfect performance measures. It must also be added that a key element of self-regulation in universities, and also depending on trust, is the peer review system. This also can work efficiently or not, but it does actually ensure that there is some accountability in a system that basically hinges on trust in academics.

### **A Movement from Moscow to the Market?**

Comrades Dawkins and Nelson have given us big movements from trust to Moscow, and in addition, thanks to Adam Dawkins and Adam Nelson, there has been some movement towards the market. In my view there should be some movement back from Moscow to trust – getting rid of some of that, sometimes silly, micro-management in regard to teaching, to administration, and to research. But here I want to discuss in more detail a possible movement from Moscow to the market. Such a movement has been suggested by many commentators, above all, by Professor Karmel since at least 1995, and by Andrew Norton in *The Unchained University*, 2002; so I claim no originality. What does it imply? Because of the existing complexities resulting from the current Moscow system, with both controls on fees and on student numbers, a transition towards the market would have complicated effects. The aims of this reform – which I favour – are two: first to ensure that students, together with the universities, rather than Moscow, decide how many students a university has in total and in each course, and secondly, to end or reduce the squeeze on universities.

The controls that might be removed are the following: first, the upper and lower limits to the numbers of subsidised students in total and in each course “cluster,” separately for each university; second, the upper limit to the number of full-fee paying domestic students; and third, the limits to the fees that universities can charge for subsidised students.

Removing the first limit would increase competition for students among universities and would certainly be in the interests of students. Some universities and courses – those in high demand - could expand, or could raise fees and so improve the quality of courses by lowering student-staff

ratios and in other ways. There would be a greater incentive to teach well so as to attract students. Even if a university that is popular chooses not to expand it will attract a higher quality of student. It is not inevitable that smaller or newer universities would lose. They could compete through a focus on teaching and quality services to students, rather than research reputation, they can specialise, and they can compete through price (as some do now with foreign students). But some will be disadvantaged by a bad location. This is another way of saying that they have a comparative disadvantage.

The underlying reason for controlling numbers in universities and courses turns out to be protection of the usual kind. Primarily it is protection of regional universities or campuses. (In 2003 about 15% of students studied at regional campuses). Hence the transition to allowing market forces to work might have to be gradual, or some of the effects might be temporarily offset with transition subsidies. But there is no doubt that the consumers – the students – would benefit from freeing this market. If, for political or other reasons, it is desired to sustain some regional campuses that might otherwise lose out, they can get targeted subsidies. It is not necessary to distort the whole system to protect them.

Removing the second limit (the limit on the number of full-fee paying domestic students) seems obviously desirable. Students who meet minimum university entry requirements and are willing to pay would clearly benefit, as would universities.

Removing the third limit (allowing fees for subsidised students to rise) would either bring extra resources to the universities at the expense of the students, or might benefit taxpayers who otherwise would have been required to finance universities more. Of course, the students can use the HECS system, so that they would only pay later, when they have sufficient incomes.

There is much more to be discussed here. Should the number of subsidised students in total for the whole Unified System, or separately in each “cluster,” be fixed, or should the numbers be open-ended, depending only on examination results? A limit may be needed so that the government’s budget commitment is not open-ended. These subsidies can either be paid directly to the universities, as now, or they can be converted into scholarships that are paid to students on the basis of various criteria, such as subjects to be studied or family incomes. How big should the subsidies be? Should there be a uniform subsidy for all students, or should it differ either by need or by “externalities” believed

to be created. Many proposals have been made. One possibility is to have no *general* subsidies at all, but just a few carefully targeted ones, perhaps in the form of scholarships. The current subsidy rates, which vary among “clusters,” certainly need to be reconsidered. At present there is a huge variation among clusters that hardly makes sense. The subsidy rates seem to vary with the costs of the courses, and are not necessarily related to externalities. Thus the rate for medicine is \$15,047 per student (EFTSU) and for law \$1472.

It seems to me that there is a lot to be said for a free higher education market without price and quantity controls, but combined with scholarships, as Professor Karmel has suggested. I would not be surprised if this is the way the system will go, as Comrade Nelson (or his successor) gradually converts himself wholly into Adam Nelson.

### **The Four Core Activities of Academics**

I turn now to some broader issues.

Academics have four core activities, namely teaching, scholarship, “public discourse,” and research. “Public discourse” might also be called “community service”.

Teaching is clearly the main activity of academics. In Australia it is the main source of their incomes. Most students expect teaching to be essentially vocational training, That is the reality. Training for a job includes not just medicine and law but also fields where the intellectual demands are very limited. The question that I have not space to discuss here, is where the line should be drawn between TAFE training and university-level training. There were once three lines, one separating universities from colleges of advanced education, another separating universities from technology institutes, and yet another separating the last two from TAFE (technical and further education) institutes.

There is an “old fashioned” view of universities, well expounded in Rowe’s *If the Gown Fits*, that sees universities as providing a general education, broadening minds, encouraging flexible thinking, and avoiding narrow specialisation. This kind of education does not need to be at a very high level, but it does need to be somewhat broad. Clearly specialised higher education must continue. Indeed, it is good for students to study some subjects in depth But, given that so many students eventually do not work in the narrow fields for which they were trained,

and that market demands for various kinds of jobs are not really predictable – in spite of endless efforts at some manpower planning from our Moscow - the case for broad training is very strong. And it must also be added that students might also be “trained” to cope with and enjoy life outside their working hours, and, in addition, to become good citizens.

I can think of a number of carefully designed courses that could make up a collection out of which all students should be required to select, say, two. Here is my first cut at a collection: Australian history and political institutions. World history. Scientific method, important developments in science, and case studies of the history of technological developments. Political and moral philosophy. Environment and geography. Logic and English expression, with some literature.

No doubt everybody will have his or her own ideas. I am thinking of economists, scientists, engineers, business studies students, medical students, all taking some courses of this kind. In addition there could be (as there are now) courses across faculties clearly designed for that purpose. Thus medical students might get some economics, and economics students get some fundamentals of medicine or law, and, of course, history. These courses should initially be presented by senior, mature, academics. I believe that a few of these courses would stimulate students and generate more social externalities in creating a better-educated population. I realise that joint degrees now fulfil that purpose for some students. To avoid any misunderstanding, in my view such courses should be chosen and developed within universities, and not imposed by Moscow on the Molonglo, much as a Minister might be tempted to do so.

Scholarship is a prerequisite for teaching - at least at the higher levels - and for research, as well as for public discourse. It means not just keeping up with a specialised field. A traditional role of universities has been to pass on the intellectual heritage and culture of a country. That requires scholarship. Regrettably some find it more interesting to deconstruct the heritage – though a bit of that may also be desirable. I would class under scholarship the writing of basic textbooks or surveys of a field. In my view scholarship is a vital part of academic activity. Payment for teaching must include time for scholarship.

By public discourse I mean participation in public policy discussion, influencing and educating public thinking on various matters (notably scientific and medical topics) all done, one hopes, with some degree of objectivity. It is often in competition with lobbying by interest groups. It

includes membership of advisory committees. In all countries it has been an important role, and in some countries – though not Australia – academics have been extremely influential. Not all academics do this. Some are natural stars, while others are uncomfortable with the TV sound bite culture. Normally this activity is a by-product of teaching and scholarship. Judgements of university performance by peer group assessors or Moscow should take such activities into account. Of course, opinions will differ as to whether particular academics engaged in public discourse have made positive or negative contributions to public understanding. Perhaps this is true of the author of this article. But, hopefully, out of controversy comes enlightenment.

Let me now turn to research - its overall funding, and its relationship both to scholarship and to teaching. The details of research policy and the allocation of funds for research and research training are big topics that I do not discuss here.

Funds for research have to come primarily from the Commonwealth government, especially for research infrastructure. Regrettably I see no alternative to that. Perhaps some can come – as they have in the past – as a by-product of student fees, and thus as a by-product of teaching. I do not see signs of significant sums coming from private industry. In the United States, of course, a good deal comes from private endowments, though there are also huge sums coming from government funding agencies.

The emphasis on research is relatively new in Australia. Rowe in 1960 complained about a lack of research, though since then it has become almost a hallmark of a “real” university in Australia. The idea of research being a central or even defining role of university academics began in Germany in the early 19<sup>th</sup> century, and later spread to the United States and then to Scotland and England. Of course it is all a matter of definition of “research”. Was Adam Smith’s *The Wealth of Nations* the product of research or scholarship? And does it matter? Or was it just a by-product of his teaching?

The Dawkins Revolution required all universities in the Unified National System to be engaged in research. That was an unwise idea. The Colleges of Advanced Education were committed to teaching students who were, broadly, not so academically inclined. The job was to raise their skill levels. Why should these teachers be diverted to research rather than concentrating on raising the skill levels of their students? Now that we have the Unified System, and new members of staff have been recruited

into these Dawkins (ex CAE) universities, they should certainly be free to do research if they wish. But teaching-only should be quite acceptable. Substantial programs of research would have to be supported by ARC (Australian Research Council or its successor) grants that fund not just special expenses but also buy-out time from teaching.

Research involves expanding knowledge and understanding at an advanced level, and may be empirical or theoretical. Some work that is described as research is really scholarship. Certainly the Australian Research Council (or its successor) should fund not just basic and applied research but also, to some extent, scholarship. It is scholarship that distinguishes the traditional university. Some vocational fields that are now taught in our universities hardly require much scholarship. That does not mean that these fields should not be taught. But it means that the term “university” in Australia has changed its meaning, especially since the abolition of the binary system. It is now closer to its American meaning, where it is broad enough to embrace both Harvard University and Bob Jones University.

The interesting question is the relationship between teaching and research. Why should they be linked? And why should academics often appointed and financed primarily to teach be judged primarily by their research output? I shall not pursue this. But it has become a major subject for discussion. Does research make better teachers? At the advanced level (4<sup>th</sup> year honours and postgraduate) it does seem desirable that the teachers are also successful researchers – though good scholarship may also be enough. At lower levels I suspect that the two activities are substitutes in terms of time allocation in the minds of the academics, rather than complements.

A.P. Rowe, thought that basic undergraduate teaching should be done by staff specifically employed for teaching; they would not be expected to do research. This does not exclude senior, experienced, academics actually doing some of the teaching. It is certainly something that students, especially if they pay high fees, have a right to expect. Of course an inspired teacher may also be an inspired researcher. The decisive link is the inspiration. Furthermore, drawing on my own experience at ANU and at Oxford, I have concluded that postgraduate teaching actually helps or inspires research, so that there is a two-way relationship.

As an economist I naturally think about the incentive system. Possibly one of the few favourable by-products of the Dawkins Revolution and

what has followed from it is a renewed concern about teaching quality. It appears that the relative incentives are being re-weighted somewhat. This may be partly due to the foreign student boom, and will go further if the kind of deregulation that I have discussed leads to more of a free market for domestic students. I sympathise with the views of Rowe and of Professor Don Aitkin (in a 1991 paper in the *Oxford Review of Education*) that there is often too much emphasis on research in appointments and promotions for positions that primarily require undergraduate teaching.

Finally, I have a few words on basic research. There is an issue for a small country here. Some might say that basic research does not need to be done in Australia. Our universities should just do commercial research, perhaps in collaboration with the private sector, and we should judge the result by its marketability. This would include applied research commissioned and directly paid for by the government in response to the needs of various government departments as they perceive them. The great advances in world welfare – including the welfare of Australians – that have come from basic non-commercial research can be done in the United States and a few other countries, and we, like everyone, will get the benefits. Why should we bother, for example, with medical research? If a cure for a disease is found one day it is likely to come from worldwide research in which researchers in Australia may have played some part, and where many Australians will certainly feel the benefits. But results can never be predicted, and there may not be any direct profits to us. If Australia closed down its universities tomorrow research would still go on somewhere. The same applies, for example, to the development of the Internet. Much research indeed leads to the increase of world wide public goods.

One can see the logic of this view, though I have not found it expressed so bluntly anywhere. But it seems to be implied in the emphasis since 1988 on practical marketable research. That is why I am mentioning it here. I may be unfair. Surely no good Australian would want Australia to be an intellectual colony, and there is also a morality question. Should we not make some contribution to international welfare in line with our size and income? In any case, such a view is short-sighted. If we make no contribution to new knowledge and develop no expertise in the areas concerned we may find it more difficult to import and adapt new ideas here. It must also be added that in some fields, notably the social sciences, there is basic, or at least non-commercial research that can have special benefits for Australia. Obvious examples are analyses of Australian public policy – and the development of new concepts relevant

to Australia - that are best not done under direct government auspices. I conclude that there is an unavoidable role for government funding handled by an intermediary like the ARC (or, to be precise, what the ARC used to be) here. How these funds should be distributed in detail is a large subject beyond this article.

### **The Uncertain Future: The Squeeze Continues**

What about the uncertain future? I shall consider two scenarios.

In the first scenario I assume that the squeeze continues, essentially for two reasons. First, governments are unwilling to spend much more on higher education, and second, they are reluctant to allow universities to raise fees for domestic subsidised students much more, or to increase the proportion of domestic full-fee paying students. Thus a continuous squeeze, in the form of high student-staff ratios, severe limits on salary increases, and limits on improving and expanding buildings, grounds, and various facilities, will be inevitable.

Vocational education will continue, for that is what people want. Foreign students will continue to come for undergraduate courses, though fees may have to be reduced to attract them. Funding for research and scholarship will be tight. Probably the social sciences, humanities, and science will lose out, though that will depend on how much cross subsidisation within universities there is, and on the extent to which Moscow on the Molonglo decides to direct special funds to them. I don't expect much sympathy for humanities in high places. Also, I don't expect much value placed on scholarship.

Some regional universities may survive for political reasons, thanks to protection with subsidies and with controls on student numbers in more popular universities, and thanks to foreign students. Some smaller universities may survive – and should do so - thanks to a reputation for high-quality teaching and an overall favourable student environment. But the reality is that many of our “universities” may become much less like universities as that term was once understood. Colleges of Advanced Education were very useful and met a clear need, but thanks to Comrade Dawkins, they became “universities” or parts of universities. They may go back to becoming useful colleges of advanced education again. “A rose by any other name would smell just as sweet.”

Under present arrangements, where some domestic full fee-paying students are permitted, and FEE-HELP is available for them, some

universities (like Melbourne) might have the income necessary to maintain high standards, though they may be limited by the requirement to take a minimum number of subsidised controlled-fee paying undergraduate students. Taking substantially more full-fee paying students, whether foreign or domestic, would lead to unacceptable growth in the total numbers relative to campus capacity.

Academic positions will continue to be filled. There will always be candidates, but first, and even second-class candidates will be harder to get. There is likely to be a worldwide boom in the academic business, and Australian universities may find it difficult to compete for good staff. The trend to commercialisation and to micro-management from our very own Moscow – and perhaps also from central administrations in some universities – will make Australian university positions less attractive. But, of course, these characteristics also exist elsewhere even now, so we may just become more like many other universities around the world. And we do have an excellent physical environment and some very liveable cities. The more flexible workplace arrangements that will be introduced (thanks to Adam Nelson) may help us to recruit high-class people, but the real limitation here will be availability of funds. The characteristic Australian egalitarianism, might also lead to resistance from academics to universities taking this opportunity.

### **The Uncertain Future: A More Favourable Vision.**

I now come to my second, more favourable, scenario.

The Australian economy may well benefit from a long-term boom of the Chinese economy. Thus we will have a high growth rate over a longer period, and this will make it possible to spend more on higher education even without having to raise the ratio of government higher education spending to GDP. Furthermore, as real wages rise more and more, students will be in a position (with the help of their families) to pay higher up-front fees and living expenses while studying, and will also be willing to incur higher HECS debts. In addition, a wise Minister of Education will abandon the price and quantity controls that I have described and go easy on micro-management. It will be “Goodbye Lenin”.

Thus fee income of universities may rise substantially. Indeed, most students will not need to be subsidised at all, though they will be able to access the HECS system. There will just be some special scholarships for the very disadvantaged or the exceptionally brilliant. Hence government

funds can go mainly for research and research training, and, perhaps, for capital improvements and for some special students' scholarships. More students, including particularly mature age ones, may decide to study the humanities, paying full fees. Thus there may be a revival in the humanities, having a favourable effect on Australia's cultural level. Governments will become convinced that university research and scholarship have considerable value, and indeed are desirable, together with postgraduate training, to make Australia keep up with a booming Asia. We may then be able to have a few universities – from two to five, perhaps – that would be internationally competitive in the higher ranges. They will then attract foreign postgraduates in larger numbers. Other universities may achieve this in particular disciplines.

### **The Uncertain Future: Foreign Students, Growth of Private Sector**

Finally, in speculating about the future I come to the role of foreign students, and to the likely growth of the private sector.

I have already noted that Australian universities were effectively saved from the worst effects of the squeeze by the foreign student boom. There were costs involved, including probably a greater increase in student-staff ratios than would have taken place otherwise, and of course including marketing costs. But there is little doubt that an end to this boom would produce a crisis for many universities. In the foreign student market Australia has specialised in undergraduate education, and one can expect more competition from existing and new universities teaching undergraduates in the countries that supply the students. On the other hand, with a fast-growing Asian middle class, there may well be a vast growth in the market, and we will benefit even when we get a smaller proportion of this growing market. But there is a need to focus on improving the total quality of the undergraduate experience of foreign students. Only a very few universities may break significantly into the postgraduate market. In any case, I regard prospects as uncertain, but probably favourable.

When, in fifteen years' time, an assessment is made of the Nelson Revolution, one may conclude that the biggest impact was made by the opening-up of the system to the private sector, and especially by the decision to make HECS (i.e. FEE-HELP) available to the private sector. Actually there is a modest private sector now, and it benefits from FEE-HELP. Furthermore, eventually private universities may include universities and their branches that are owned by foreign governments.

Private universities can hardly be prevented from establishing in Australia since Australian universities have established their branches or subsidiaries in other countries. In addition, since many of the best US universities are private, one can hardly argue against private universities in principle. But we should not expect any – not even one – Australian private university to be in that class, because none will ever get the sorts of endowments that the best US universities have obtained, and are still obtaining. We also need to bear in mind that most US students still go to public universities.

Various policy issues arise concerning private universities. The government has focused on the issue of which institutions should be allowed to call themselves “university” This term has, in any case, lost much of its traditional British meaning in Australia, so that is perhaps no longer an important matter. On the other hand, one should not ignore the “truth in advertising” issue. The word “university” still has some hint of a meaning, especially for foreign students. It is more important to ask to what extent government subsidies should go to the private sector. Here one should bear in mind that the FEE-HELP system might turn out to involve an element of government subsidy. Should the private sector be subsidised while the public sector is still being squeezed? I flag this issue but will not discuss it here.

The most important issue for a public sector that has to compete with a private sector is that it might have to suffer from regulations of various kinds that are not imposed on the private sector. Even now, universities in the Unified System are limited in the number of full-fee paying domestic students they can take, while no such limit applies to private institutions outside that system. In addition, our universities are possibly not really free to close campuses that are uneconomic or that do not fit into the university for various reasons. The community also has expectations from public universities about research, scholarship and “public discourse” (community outreach) that teaching-only private institutions do not have to worry about.

To conclude, the Australian higher education situation might be completely transformed by a growing private sector, and even by some public universities being privatised. Our system would then become a little more like the US system. But, as I have said, because of lack of endowments one cannot conceive of even one “Harvard” or “Stanford” in Australia.

## **Have I been Unfair? The Audit Culture and Trust**

I have not discussed the important subject of allocation of funds for research and research training, the possible need for more (or less?) concentration of research effort as between universities, the governance of universities, and the big question of the optimum size of universities. Have some of our universities become too big, and, if so, why? The current complicated funding system has caused some universities that are able to attract large numbers of qualified full-fee paying domestic and foreign students to become very big. The point is that they are still required by Moscow to take a minimum number of Commonwealth-supported undergraduate students, for whom returns to the universities are relatively low, so the only way universities can improve their financial positions is to take more students in total.

I have wondered whether I have been unfair to the department of education in Canberra. They have opened up many issues, notably the teaching and the “governance” issues. Of the numerous departmental documents I have read, the latest one is “A Discussion about re-aligning Commonwealth-State responsibilities” This is a very detached and informative discussion or consultation paper, of which nobody could complain. More Gorbachev, and certainly not Lenin. And then, even more impressive, there is attached a report of interviews conducted by a professor on behalf of the department with almost all the vice-chancellors. What do the vice-chancellors think about the idea of the Commonwealth taking over all authority over universities from the States? Well, they were pretty clear about their views, and these were clearly reported. Would Lenin have commissioned such interviews with factory managers and honestly reported their complaints?

Nevertheless, reading the report of these interviews my own conclusion is that, insofar as I have been critical of Moscow on the Molonglo, I have not been unfair. The vice-chancellors certainly agree. Let me quote:

“All Vice-Chancellors, whether supportive or not supportive of the idea, indicated that some form of moderating influence should reside between the Minister and his Department on the one hand and universities on the other. An independent source of advice to the Minister is regarded as essential”. In other words (my comments) one of the worst “legs” of the Dawkins Revolution was the abolition of the Tertiary Education Commission.

And here is a paragraph from the report's conclusion:

“There is an equally universal view that regulation of the sector is “out of control” and making unreasonable demands on universities’ scarce resources. Since assurances from the Minister that red tape and bureaucracy would be reduced as a result of recent reforms have proven to be the reverse of the actual outcome Vice-Chancellors are reluctant to trust further assurances of a similar kind.”

Late in my researches I have also discovered that similar developments have taken place in Britain, and that there is a literature about the “audit society”. I seem to have discovered independently what has been much discussed there. When we talk about micro-management the main issues are really not special to universities at all. They are about new trends in public administration. Indeed, similar issues relating to the Australian judicial system were raised by Mr. Justice Spigelman in *Quadrant* March 2002.

The most illuminating article I discovered was by Professor Ronald Amann, entitled “A Sovietological View of Modern Britain” in *The Political Quarterly* 2003. He was originally a sovietologist and more recently was for eight and a half years the chief executive of Britain’s Economic and Social Research Council, and later he was in the UK Cabinet Office. He writes about the sociological character of central planning, noting some striking resemblances between what happened in the UK (beginning with the Thatcher government) and the Soviet Union. He writes about an “audit culture” and about “indicator-driven distortions and humanity-sapping working environments”. He suggests that there should be a “detailed cost-benefit analysis of the contemporary culture of audit and accountability, having in mind the restoration of professional trust and judgement and asking how, in practical terms, this might be achieved.” In other words (harking back to my earlier comments) one needs to think not only about a movement from Moscow to the *market* but also from Moscow back to *trust*.

A longer version of this paper, with footnotes and bibliography, is available at  
<http://www.economics.unimelb.edu.au/who/mcorden/mcorden.html>

It provided the basis for the Sir Leslie Melville Lecture given at the Australian National University on 21<sup>st</sup> September. Max Corden is Emeritus Professor of International Economics of the Johns Hopkins University and a Professorial Fellow at the University of Melbourne. He is grateful for help from many people, especially Bruce Chapman, Simon Marginson and Andrew Norton.