

## MICROECONOMICS AT WORK EXERCISE

### THE 'FREE MARKET' AND UNIVERSITIES

**REFERENCE:** 'Set universities free' (by Martin Jacomb), *The Spectator*, 25 January, 2003, pp. 16-17.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 2, 12.

### OVERVIEW

This article (written by the Vice-Chancellor of a private university in the UK) is about the appropriate institutional basis for the provision of the service of education by universities. In essence this comes down to the reliance on the direction, and funding, of universities by *government* as against the provision of the service (and hence the operation of universities) according to 'the market'. In the latter case, universities operate according to the dictates of *consumers* of the service, i.e. to students, not to whatever political authority has power (today generally described as 'the government'). The particular current problem of universities (in the UK – though the argument applies, albeit to a slightly lesser extent, to Australia) is that the percentage of the population of young people (and hence the absolute number of students) has been growing, but the rate of increase in government funding has not kept pace. At the same time governments have been exerting even greater control over the way universities operate, controlling, for example, admissions policy and requiring universities to report on where they are spending government money on research. The funding of bureaucratic bodies to carry out these functions only requires money which could otherwise be directed to universities. A more desirable system, it is argued, is to simply provide universities with an endowment, which could be supplemented by income generated by universities themselves (e.g. from student fees) and free them completely from government control.

### QUESTIONS

1. What examples are given to illustrate the problem (associated with government funding of universities) of 'he who pays the piper calls the tune'?
2. What is the moral of the tale about Adam Smith (why is he famous?) refusing a government stipend?
3. Explore some of the implications of the notion of universities 'responding to the market'.
4. Outline the key features of the system proposed by the author. In what sense do these allow – and require – universities to respond to the market?

5. Do you think that such a system would be in the interests of all students, particularly those with lower incomes?
6. Explain the significance of the (hypothetical) scenario outlined by the author in the final paragraph.