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Why Is It so Hard to Govern Higher Education? The University as a Public Corporation

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Abstract: In order to function, higher education has to rely on the sectarian individualism of academics who seek wider intellectual and social reputation as a substitute for the private distribution of residuals. This frames governance as a positive sum game, and makes collective action possible. Since there are no veritable standards of operating performance, the governance process is contingent more on generalized trust and less on administrative fiat. Collegial governance is also required by the nature of the critical assets, represented by human capital. The separation between ownership and control, which represents the hallmark of the public corporation, is untenable in higher education, unless academics are denied the right to self-ownership. The main agency costs of academic autonomy is posturing and intellectual patronage. The managerial impetus has produced debatable results so far. While focus, operating performance, and student satisfaction appear to have improved, the scope for opportunism and expropriation of taxpayers might have also increased.

JEL classification: A20, D23, D73, G34, H41, I23, and L31

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1. Introduction

To the outsider, academia is a mystifying bubble. Professors, students, and staff move about following a rather arcane inner rhythm and logic. The pattern of mutual interaction is more or less free from the guiding hand of a centralized authority. As a group, academics seem to lack the manifest purposefulness so characteristic of other professionally managed organizations. Freewheeling seems to trump structure and discipline. In class, professors refer to the realm beyond the walls of the university as the "real world." Major policy decisions are painful to come by, and they are accompanied by raucous polemics. Academics are often at loggerheads with the administration, and, in many cases, the relationship between the two is downright acrimonious. Squabbling, quarreling, and back-stabbing are rather commonplace. The politics of the workplace are as frightening as a jungle, yet no more hazardous than a playground; the bliss of enlightenment is accompanied by the shock and awe of power struggles [Balridge (1973)]. Universities often seem to teether on the brink of anarchy.

Susan Lohmann (2006) cites two iconic contentions that summarize with uncanny insight the arcane nature of university governance. On the one hand, James Carlin, a self-described

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"businessman for over 35 years," "director of eight public corporation," and "founder of four businesses," confesses in a 1999 article titled "Restoring Sanity to an academic World Gone Mad," published in the Chronicle of Higher Education that:

"Never have I observed anything as unfocused or mismanaged as higher education."

On the other hand, an influential paper by Cohen, March, and Olsen (1972) resembles the university to a garbage can:

"...a collection of choices looking for problems, [...] solutions looking for issues to which they might be the answer, and decision makers looking for work."

These two assessments are the embodiment of a widely-held opinion that views university governance as perplexing and dysfunctional.

A vigorous trend aimed at professionalizing the management of (public) higher education in North America, has increased the organizational focus, introduced operating measures of performance, and produced standards for accountability fashioned after those used by public corporations [Mahoney (1997)]. Yet, this managerial makeover has received mixed reviews [Birnbaum (2000), Lohmann (2004)]. Most criticism is essentially leveled at the managerialist mindset, and the threat it represents to academic freedom and autonomy [Waugh (1998)]. To date, collegial governance still endures, albeit altered to accommodate the managerial discourse, with particular emphasis on cost management, customer satisfaction, and corporate image [Lazerson (1997), Dearlove (1998)].

In spite of its chaotic and haphazard appearance, higher education has continued to contribute to economic and social progress [Mincer (1984), Krueger and Lindahl (2001), Milligan and Moretti (2004), Martins (2004)]. Year after year, millions of students have been educated and graduated, and academic research has produced noteworthy results that accounted for major advances in health care, technology, economy, and social policy. [Barro (1991), Bassanini and Scarpetta (2002), Huggetta et al (2006)]. One is eventually compelled to ask at least two questions: First, how is collective action achieved in academia? Second, how does the rise of the professional manager contribute to improving governance in higher education?

Notwithstanding its unique character, the university is at its core an economic organization akin to the public corporation. Answering the above questions cannot take place outside the analytical framework used to inquire about the nature of the firm [Berle and Means (1932), Williamson (1975)]. The notions of collective action, public goods, and property rights are thus central to deciphering the dynamics of university governance.

Like any other organization, the university requires collaboration to make collective action possible. Collaboration, in turn, requires an economic surplus to be distributed privately. In general, corporate governance is the mechanism that frames collective action as a positive sum game and sets the standards for negotiating the distribution of the surplus under conditions of

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uncertainty. The public corporation relies primarily on administrative rule and clear operating standards, because the provision of private goods allows for the internalization of residuals. Academia, however, is delivering public goods, cannot internalize the economic surplus, and has no residuals to distribute privately. Collaboration would not be possible without the sectarian individualism of academics.

On the one hand, this individualism rejects political authority and provides the internal repellent responsible for the institutional idiosyncrasies mentioned earlier; on the other hand, it embraces social status based on intellectual prowess as a substitute for residuals; individualism thus becomes a shared value, which forms the basis of social capital responsible for collegial governance. Collegial governance is also required by the prevalence of human capital - the firm specific asset - because the separation between ownership and control would be untenable, unless academics were denied the right to self-ownership. In order to function properly, higher education has to rely primarily on social capital and trust, and to a lesser extent on administrative fiat.

Because the academic community is quintessentially a moral community, self-monitored, and regulated by implicit contracts, it is vulnerable to the opportunism of those mimicking commitment to its values, and to the patronage of intellectual elites [Pinker (2002)]. This represents an agency cost akin to that engendered by the controlling shareholders of public corporations [Shleifer and Vishny (1986), Holderness and Sheehan (1988), Morck (1995), La Porta (1998) and (1999)].

The rise of managerialism in higher education can be construed as an attempt to stamp out moral hazards and reduce agency costs, by replacing collegial governance with hierarchical rule. Whether this approach is viable in the long run remains debatable, for it is not collegial governance the culprit, but the unfathomable nature of residuals. If the private good becomes emphasized at the expense of the public one, while academia remains publicly funded, the manager turns into an opportunist agent who now colludes with the faculty to expropriate the taxpayers [Jensen and Meckling (1976), Fama (1980), Shleifer and Vishny (1997)]. Academics gradually become relegated to the role of customer service workers, while administrators pursue corporate-style accountability goals, customer-centered strategies, and cost management policies that command substantial perks and managerial rents [Murphy et al (1993), Bebchuk (1999), Bebchuk et al (2002)].

In the next two sections, we briefly discuss the nature of collective action, property rights, and the role of economic surplus. Section four analyzes the relationship between unconfined public goods, and collegial governance. Section five discusses the paradoxical nature of the sectarian individualism in academia. Section six evaluates the managerialisation of higher education. Section seven concludes.

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2. Collective Action and the Separation Between Ownership and Control

Every economic organization is ridden by conflicts of interests. Economic agents are in a constant competition for resources and survival. The modern corporation, in spite of being legally endowed with rights and obligations, is not really a purposeful monolithic entity. Rather, it represents a network of individuals with conflicting economic interests who enter temporary contracts allowing them to cooperate in order to compete more effectively against other economic agents. Each organization is conceived as a nexus of contracts. Cooperation is aimed at extracting an economic surplus (rent); the existence of an economic surplus makes cooperation possible within certain limits[1].

As far as economic organizations are concerned, there has to be an economic surplus to be generated, for genuine cooperation to occur. Any approach that fails to frame the process as a positive sum game will result in a deeply dysfunctional organization. Moreover, economic agents require a fair mechanism to deal with the distribution of the economic surplus under conditions of uncertainty. Corporate governance – the crux of microeconomic organization – needs to specify a system for measuring the economic surplus, and to identify a group of agents with residual rights over the surplus [Rajan and Zingales (1998)]. Corporate governance is thus a reminder that individuals have conflicting claims and contracts are incomplete [(Hart and Moore (1988)]; it ultimately represents an exercise in minimizing the cost of collective action.

Financial economists have noted the existence of agency costs associated with large, publicly owned corporations. When the ownership of firms is dispersed, separation between ownership and control occurs. Individual shareholders have little incentive to monitor the manager simply because the monitoring costs are borne alone while the benefits of monitoring are enjoyed by everyone. [Jensen and Meckling (1976), Fama (1980), Shleifer and Vishny (1997)].

As it becomes obvious that knowledge increasingly represents the main economic output, the separation between ownership and control is blurring. Knowledge is a paramount trait of human capital, which is bound to eclipse financial capital in terms of economic significance. Since a free and democratic society rejects any form of slavery and servitude, a clear-cut separation between ownership and control could never be achieved. The increasing complexity of modern economic life requires teamwork, because teams are better at monitoring their members and evaluating complex outcomes that are not readily measurable or observable by independent third parties [Baker et al (1988)]. The future of economic organization will arguably revolve around knowledge-based goods and services hard to quantify, and around complex production processes that cannot be prescribed ex-ante by conventional performance metrics [Drucker (1999)]. The post-industrial economic organization relies more on flat networks based on trust rather than on traditional hierarchies based on autocratic rule [Rajan and Zingales (2000)].

The traditional university is an organization that exemplified ahead of its time with great

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1 Axelrod (1997), (2006) and Axelrod and Hamilton (1981) have used game theory simulation to inquire about the nature of Evolutionary Stable Strategies (ESS). The authors recognized that individuals are constantly engaged in Prisoner's Dilemma games. Axelrod noticed that, from a large group of game strategies, the emergence of a cooperative ESS was conditional on repeat interaction over a period of unknown duration.

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eloquence the interplay among human, social, and financial capital. The university is an economic network. Academics play a central role because they represent the technological core of the university [Waugh (1998)]. Tenure encourages them to specialize their human capital, which thus becomes tied-up with the university, and exposed to its idiosyncratic risk.

Just like any entrepreneur, the academic would not agree to specialize one's capital without some assurance that the investment is protected from expropriation by other opportunistic agents [Jensen and Meckling (1976), Fama (1980)]. While investor rights represent an assurance against expropriation for the typical investor, tenure represents an assurance against expropriation for the academic. Human capital cannot be managed just like a piece of equipment, and separation between ownership and control is untenable here. Hence, tenure is not guaranteed life-time employment; it rather represents protection from interference with one's right to self ownership, which in turns makes specialized-firm investment possible [Brown (1997)]. Academic freedom and autonomy is a direct consequence of this notion [McPherson and Winston (1983), Carmichael (1998)].

As providers of human capital, academics retain some measure of residual control. Exercising residual control requires involvement in the governance of the university [Grossman and Hart (1986); Hart and Moore (1988), (1990)]; hence the the flat, collegial governance structure. While human capital is supplied by academics, financial capital is supplied by taxpayers and private donors. It is their money that buys the necessary tangible assets: buildings, labs, technology, facilities and many others. As such, there is always a latent conflict of interest between academics and the providers of financial capital, similar to that existing between majority and minority investors in a public corporation. In principle, it would be easy for faculty and administrators to expropriate taxpayers and donors, because it is difficult to establish meaningful performance metrics [Baker et al (1988)]: Most of the academic output is intangible and consists of public goods.

3. The Academic: Individualist and Communitarian

Universities are organizations that provide a unique mix of private and public goods. The public goods can be classified according to their degree of confinement[2]. Highly confined public goods tend to be internalized entirely by the group incurring the cost of their production. Security on our university campuses constitute such an example. The confined public good - a safer campus – is accruing only to the members of the academic community who also incur the costs associated with providing it. From the perspective of outsiders, a safer campus amounts to a private good. Of course, if one lives at the edge of the university's campus, one might be able to capture a certain measure of enhanced safety; but this is only due to the fact that there is no clear-cut delineation between private and public goods. Pure public goods, just like pure private goods are pure fiction.

Unconfined public goods are externalized by the group that internalizes the cost of their

2 Some authors classify public goods according to their degree of globalization, see [Stiglitz (1999)]

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provision. Organizations that produce and distribute open source software are good such examples. Objective knowledge is yet another example of unconfined public good. Universities create knowledge [Popper (1972), Stiglitz (1999)], invest in social and human capital [Schultz (1961), Becker (1964)], and provide important signals regarding the socio-economic value of graduates [Griliches and Mason (1972), Arrow (1973)]. Social capital can be defined as the propensity of individuals to associate spontaneously in order to produce public goods and internalize the cost of collective action.

A vast majority of modern universities are conceived as nonprofit corporations. This arrangement is required by the prevalence of the public good component. Higher education is externalizing a seizable portion of the economic surplus while having to internalize almost all the costs associated with its provision. The costs are well specified and incurred immediately, yet the benefits are quite general, uncertain and distant. There can be no taxation of an incommensurable, publicly distributed surplus [Hansmann (1980), Rushton (2007)].

In the case of higher education, there are no conventional economic residuals to be allocated privately. Nevertheless, academics are fundamentally selfish individuals like any other economic agents, and they would refuse to cooperate in a zero sum game. How is cooperation still possible in the absence of a profit motive? Higher education needs social capital based on trust [Hansmann (1980)] to lower the cost of collective action. All modern organizations rely on some combination between social capital and arm's length contracting. A corporation cannot rely exclusively on fiat to function. For higher education, trust is even more important than for other organizations because the economic output is not directly measurable. How are academics socialized, and what is the origin of trust?

Academics represent a unique breed. In some respects, they share an individualism reminiscent of the ascetic protestantism described by Max Weber (1987) and Francis Fukuyama (1996). Academia represents a sectarian community whose members practice a similar form of individualism. This trait is built in the nature of the profession. The strict training regimen bestowed on its members extols at every step a healthy skepticism. Academics are conditioned to acknowledge only one source of authority: objective knowledge acquired according to an elaborated and rigorous methodological process. By postulating a direct relationship with an impersonal ultimate authority, academics have a moral basis to reject other forms of local rule. Academics accept no institutional or political mediation in their relation with knowledge [Trow (1998)].

At the end of each academic year, the faculty is proudly wearing their regalia, adorned with unique markings and colors identifying one's alma mater. This ritual is not much different from military parades where elite troops display their uniforms as a symbol of collective identity. The academic regalia is simultaneously an ostentatious display of individuality, and a testimony to one's membership to the academic community. In fact, many academics think of the university in which they work, not in terms of “institution” or “organization;” rather, they often refer to it as a community of scholars. The shared belief in knowledge as the ultimate source of authority, generates the cohesion and affinities that cause academics to form a tight moral community. In

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spite of their militant individualism, or rather in the name of preserving this individualism, academics have a natural propensity to band together.

Because deference to objective knowledge is based on one's inner conviction, the socialization of academics has been traditionally a voluntary process. While voluntary associations are more vulnerable to opportunism, and can break up more easily than those based on conscription, they also generate a stronger genuine commitment, and hence stronger ties. [Fukuyama (1996)]. Academics master, in the words of Alexis de Tocqueville (2000), “the art of association.”

The ties that bind individuals in such a community are stronger the higher the standards for acceding to the community. The training of academics exacts an incredibly high and onerous price that would most likely be regarded by a majority of ordinary citizens as repressive and despotic. A typical Ph.D. program lasts at least four years during which the candidate is made to endure the rigors of a very strict regimen. Due to the intensity and ruthlessness of this regime, the only life-style choice that can sustain these efforts is one of asceticism and austerity. Doctoral candidates have to demonstrate not only an aptitude for learning the necessary analytical skills and methodology; they also have to show an unwavering commitment to an entire system of ethical and moral values that underpin the pursuit of objective knowledge. Just like the open source community (who was arguably fashioned after the academic example) academics profess an ethical code that values the provision of unconfined public goods [Paulsen and Feldman (1995)].

The provision of unconfined public goods represents a conduit for increasing intellectual and social status outside the walls of Academia. Most academics seek stardom, celebrity and recognition just like musicians, writers, journalists, and movie stars. At times, this can generate a stronger motivation to succeed than that provided by the profit motive. Profit is merely one approach among many to climbing the social ladder. Having spent a great deal of energy and time to amass fortunes, rich individuals dedicate the rest of their life to acquiring the social recognition and respect to match their opulence. There is no coincidence that tycoons like Rockefeller and Carnegie chose to become patrons of knowledge and arts in order to enhance their social stature. Nowadays, it has become commonplace among many millionaires to endow colleges and universities. Associating one's name with the academic community is viewed as a measure of status, and speaks volumes about the type of social reputation entailed by intellectual effervescence.

Wealth is valuable because it provides access to a desirable social status, but is not a necessary condition for attaining it. Intellectual prowess represents an alternative path to social attainment. For academics, a high intellectual and social profile represents the ultimate surplus, which turns higher education into a positive sum game, the ultimate return to their investment in human and social capital, making cooperation possible and desirable.

From a corporate governance perspective, the drive for social status has yet another decisive advantage. Recognition is the result of intense and ruthless scrutiny from all quarters - peers, students, politicians, community members, and donors. This generalized surveillance provides an

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invaluable substitute for conventional monitoring mechanisms, one that would preclude academics from expropriating taxpayers. In fact, it represents the only viable alternative to containing agency costs. The answer that administrators find hard to accept is that there is very little one can do to contain the opportunism of academics, except preserving the stock of social capital based on trust and selecting academics based on their commitment to public goods. Opportunists could and will always exploit the system, hopefully to a limited extent. In the long run, however, they would never achieve true recognition and reputation. Recognition and reputation are contingent on a genuine intellectual legacy, which is impossible to prescribe in advance, but is recognized as such ex-post [Baker et al (1988)].

A much more significant moral hazard is the entrenchment of intellectual elites. Self-righteous academics can always press a doctrine that ensures their intellectual patronage over the rest of the community. Austrian economist Friedrich von Hayek could hardly find academic employment in the period following WWII because his free market philosophy ran against the doctrine of the day represented by Keynesian economics. All doors seemed closed in Europe. Only the University of Chicago hired him, but not in the Economics Department, owing to the opposition from faculty hostile to his views. Eventually, he received the Nobel Prize in 1974, which vindicated him as one of the most preeminent social thinkers of the 20th century.
During the 1970s, Edward O. Wilson's *Sociobiology* (1975), and Richard Dawkin's *The Selfish Gene* (1976) were chastised as reactionary and fascist by a relatively influential group of academics, led by paleontologist Steven Jay Gould, geneticist Richard Lewontin, and anthropologist Marshall Sahlins [Pinker (2002)]. Among other things, the books argued that natural selection and genetic heritage are crucial determinants of human nature, that the basic unit of natural selection is the gene, not the social group, and that humans might be hard wired for morality and social justice. These views ran contrary to intellectual fad of the day grounded in Emile Durkheim's (1961) anti-reductionism. The proponents of these ideas were harassed, insulted, bullied, their lectures boycotted, and their professional reputation attacked.

4. The Visible Hand of the Manager and Academic Capitalism

To the no-nonsense manager, the university appears tethering on brink of the abyss, and, like a damsel in distress, begs to be rescued [Mahoney (1997)]. Managers view higher education as nothing more than a service offered at a cost. The faculty member is merely a professionals who tells people what they need to know and do in order to increase the present value of their income stream. The university is thus entitled to charging a fee for the services rendered. Students are nothing more than customers who purchase what is essentially a private good.

Managers criticize academics for being stuck in an anachronistic world, lacking flexibility in the face of a fast changing world, and most importantly, ignoring economic considerations. In this light, the collegial model of governance is antiquated and inefficient. It cannot provide the nimbleness and adaptability that allows corporations to navigate the troubled economic waters of the global economy. The prime mover of higher education is – just like in the case of all other corporations – the market. The free hand is always there, blindly, yet efficiently allocating

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resources. In order to succeed, universities should - just like any other corporations - heed its hints and signs. When taken to its logical conclusion, this approach will obviously call for managerial discretion, re-structuring, downsizing, cost-management and the like – all trappings of the corporatist model [Dearlove (1998)].

Many deplore the commercialization of higher education [Waugh (1998), Lohmann (2004)]. Almost a century ago, Thorstein Veblen (1918) voiced similar criticisms. The tug of war between academics and administrators is as old as academia itself. However, both administrators and academics often fail to acknowledge the distinction between economic value and operating performance. The former is originally intended as the ultimate goal, while the latter is merely a glorified metric [Goodhart (1998), Goodhart and Mizen (2003)]. The bulk of economic value is embodied in the public good - knowledge [Veblen (1961), Habermas (1968), Popper (1972), Romer (1986) and (1990), Wisman (1989), Klenow (1998)], human and social capital [Schultz (1961), Becker (1964), Mincer (1984), Kamens (1988), Psacharopoulos (1994), Milligan et al (2004), Huggetta et al (2006)], and signaling [Arrow (1973), Spence (1973), Taubman and Wales (1973), Murnane and Levy (1995)]; yet most operating budgets aim at internalizing a portion of the private good - the present value of graduates' future earnings [Ashenfelter and Krueger (1994), Kane and Rouse(1995), Ashenfelter and Rouse (1998), (2000), Connolly and Gottschalk (2006)]

To academics, managerial discretion is synonymous with the blind and indiscriminate influence of market forces. Nothing could be farther from the truth. In reality, managerial discretion is just the opposite of the invisible hand embodied by the free market. The market uses the impersonal mechanism of relative prices to allocate resources; in a hierarchically organized institution, however, resources are allocated based on arbitrary decisions made by bureaucrats [Williamson (1975)].

Managers, however, appear to have an equally muddled understanding of the issue of economic value. To date, the current managerialist discourse has proclaimed the primacy of the market, but in practice has merely embraced a corporate governance model built exclusively on accounting conventions. The confusion between market forces and managerial discretion stems from equating market demand with students' preferences. Both managers and academics sometimes forget that the market of the university is the entire society. Students are just one constituency among many, and focusing solely in providing them with a narrowly defined private good, generates significant negative externalities for the rest of the market. Unfortunately, due to the nature of academic output, market feedback is very slow. We immediately notice shifts in student enrollment and funding, yet it takes years to observe broad social and economic changes brought about by inadequate institutional policies.

The incongruence between manifest costs and inconspicuous benefits sharpens the conflicts of interests among claimholders and creates ample room for opportunism. Both managers and academics are prone to favor policies that play to their skills and strengths. The managers prove their mettle by making sure that enrollment remains steady, students leave as happy customers,

costs are under control and the annual operating budget is balanced. A balanced budget has its own virtues because it ensures the continuity of a steady flow of perks and makes jobs more secure [Murphy et al (1993), Bebchuk (1999), Bebchuk et al (2002)]. Like any other economic agent, the manager responds to incentives [Jensen and Murphy (1990)], which pertain to how (public) universities are financed, i.e., enrollment numbers and satisfaction surveys, such as teaching evaluations. While nominally the university remains a nonprofit organization geared to look after the greater good, there is (and always was) a strong undercurrent that emphasizes the private good component at the expense of the public good. Objective knowledge, human capital, and signaling should constitute the only standard against which success should be assessed, yet in practice, operational efficiency takes precedence.

Managerial heavy handedness is prone to destroy social capital and trust, which forms the delicately balanced basis on which academia relies to function properly. The Faculty require freedom of expression and non-interference from political quarters in order to gain visibility and achieve notoriety. Instead, their academic autonomy is subtly constrained by teaching evaluations and other devices aimed at measuring output and ensuring accountability. The administrators steal the spotlight, and the managerial gospel takes center stage [Dugger (1989)]. Faculty are increasingly relegated to the obscure role of salesmen, cranking away degrees and research papers, and, just like car dealers, they are rewarded according to the volume of sales [Sykes (1998)].

To the extent to which universities continue to remain tax-exempt and subsidized by the state, academic capitalism [Slaughter and Leslie (1997), Slaughter and Rhoades (2004), McNay (1999)] could amount to nothing more than siphoning off resources from taxpayers and donors, fitting very well the predicament lamented by public choice theorists, such as Buchanan and Tullok (1962). Ironically, the smoother and more efficient university governance appears to the outside eye, the greater the chance that administrators, faculty, and students are colluding to expropriate taxpayers [Sykes (1998)].

5. Concluding Remarks

Academia is a precariously balanced community where collaboration takes place in order to maintain the individualistic ethos and to secure a high social profile for its members. Collegial governance is necessary because human capital makes separation between ownership and control impossible, and the intangible nature of the output makes trust paramount. To be true to their professional calling, academics reject any political mediation in the relationship with objective knowledge; this leads to a unique type of individualism, which dismisses any form of bureaucratic authority. The same individualism becomes a shared value which forms the basis of strong social bonds among the members of the academic community. Unwavering commitment to the provision of unconfined public goods is the crucible which keeps these bonds in place. Its importance cannot be overemphasized: it engenders a positive sum game by allowing academics to seek social status outside the walls of academia; and it provides the mechanism for self-monitoring, the only that would function given that universities do not internalize their economic

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output. The glaring truth is that in order for meaningful collective action to occur, academia has to rely mostly on trust and to a lesser extent on administrative rule.

As a community, however, the university remains highly vulnerable to the moral entrenchment of intellectual elites. Higher education is prone to intellectual elitism; this subjects the greater academic and intellectual community to a subtle form of dogmatism, which delineates the righteous from the unworthy. The inordinately complex nature of knowledge, however, makes this agency problem irreducible. If we want to build a society around objective knowledge - the quintessential public good -we have to trust those who seek it; and accept the risk that once in a while, some will patronize the rest of us. The managerial impetus in higher education is at its very core an attempt to stamp out the intellectual elite; unfortunately, it only succeeds in replacing one agency problem with another. The patronage of the knowledge elite is being supplanted by the opportunism and greed of administrators, just like the public corporation has replaced the opportunism of large shareholders with that of the managers. The elusive nature of academic output represents an ideal shield for shirking. Under the veil of teaching evaluations and journal impact factors, the posturing of faculty and administrators could easily siphon-off resources from the taxpayers.

In the end, the governance of higher education remains a delicate act. As long as academic autonomy will endure, the collegial model will inevitably project the image of anarchy and dysfunction, just like the shouts and gestures of brokers make the trading pit of the New York Stock Exchange look chaotic and disorderly. Beneath the clutter, however, there is more structure and coherence than meets the eye.

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