



Academics as rent seekers: distorted incentives in higher education, with reference to the South African case



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ABSTRACT

The behavior of academics and academic institutions is examined through the concept of rent seeking, in which organizations or individuals expend resources to obtain 'artificially contrived transfers'. International ranking systems, publication-based incentives, and grant awarding processes, all encourage and reward rent seeking behavior: participants engage in distorted, costly behavior to obtain rewards, including public funds, without regard to the social value of these activities. This may be especially damaging in developing countries. Detailed examples from South Africa's higher education system illustrate such behavior and its relation to policy. The paper concludes by sketching an outline of some possible solutions.

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1. Introduction

Much has been written about the negative effects of 'neoliberalism' on higher education from the later decades of the twentieth century until the present.¹ The crux of the problem is the structure of relationships between governments, higher education institutions and private interests.² Yet while this literature examines the damaging effects of 'corporatizing' higher education, including infringement of institutional autonomy and academic freedom, little use has been made of concepts developed in economics for analyzing the failures of markets and bureaucracies.

The present paper examines the behavior of academics and academic institutions through the lens of economists' concept of *rent seeking*. Rent seeking is the process whereby private organizations or individuals expend resources to obtain actions from state institutions that allow these private actors to earn 'rents' in excess of what they would earn in the hypothetical scenario of a competitive market. The mere relevance of this perspective for

modern higher education reveals a great deal, given its origin as a description of behavior in markets for consumer goods. Furthermore, in as much as it deals with the misallocation of scarce resources, rent seeking has particular salience for developing countries where higher education competes with other pressing needs for public expenditure.

The resultant thesis is not that the academic enterprise inherently leads to rent seeking behavior, but that the structure of the modern academy increasingly encourages and rewards rent-seeking behavior of various forms. As a result the characteristics of academia that have earned it a special position in many democratic societies become at best incidental or, at worst, are merely maintained as a facade for a less laudable enterprise.

I argue, with reference to the South African case, that the consequences are likely to be particularly egregious in developing country higher education systems. After the relative isolation of the apartheid period, South African universities increasingly oriented themselves toward international metrics of success – such as cross-country rankings – and adopted similar approaches to institutional management. Internationalization itself was, and remains, highly desirable in order to improve the quality of local research that was compromised under apartheid-era isolation and political control. However, adopting such metrics and associated incentive structures meant that the problems of such systems would manifest locally. The aim of the present paper, however, is not just to comment on the negative effects of such systems, but rather to present a different lens through which to view a subset of these problems at both the international and local level. The hope is that accurately characterizing the dynamics that undermine the

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¹ See for instance Giroux (2002) as one of many such expositions.

² The notion of neoliberalism is given little credence by economists, arguably because of the discipline's general disregard for the history of economic thought and associated disavowal of the notion that established views within the discipline may be ideological, rather than 'scientific', in nature. A valuable, general overview of the concept of neoliberalism, and its effect on societies and public policy in recent decades, is provided by Harvey (2005).

substantive foundations of academic activity will provide a basis for future reform.

2. Rent seeking as a concept and framework for analysis

Rent seeking is a concept developed in economics by [Tullock \(1967\)](#) and [Krueger \(1974\)](#), with the term itself coined in the latter paper. The objective here is to use this frame to better characterize some of the specific corrupt, and corrupting, processes in the modern academy in general, along with some selected examples from the South African case.³

The classic textbook example of rent seeking is where a firm obtains monopoly power, or protection thereof, from government thereby allowing it to overcharge consumers – to the consumers' detriment but the company's gain.⁴ Non-economists should be aware that the originators of the rent seeking concept framed it as illustrating *state* ('bureaucratic') failure. For that reason it continues to be disproportionately associated with schools of thought that favor a minimal role for the state in the economy and society at large. However, the more recent literature has recognized that rent seeking is a broader phenomenon. Notably for our purposes, it recognizes that markets and market mechanisms can *facilitate* large-scale rent seeking; as was the case for the privatization policies introduced after the collapse of the Soviet Union, which led to the redistribution of public assets to a small number of oligarchs ([Roland, 2002](#)).

The broad applicability of the concept is captured by [Tollison \(1982, p. 576\)](#): "The theory of rent seeking involves the study of how people compete for artificially contrived transfers." Within this, the concept of rent seeking emphasizes three issues:

- 1 The use of public institutions to redirect social surplus toward private actors (of various sorts);
- 2 Welfare loss from resultant distortions in what is produced by these private actors;
- 3 The private and social costs incurred in the competition to obtain, or secure, such rents.

Rent seeking is therefore a relevant concern in higher education in two main respects. The first is where academics and higher education institutions seek to secure, through lobbying of various kinds, funds without regard to the social value of their activities. This could involve, for instance, university managers overstating the link between higher education and economic growth, or individuals making unwarranted claims about the societal usefulness of their academic research. The second is where individuals and institutions incur significant costs and depart from desirable academic activity in order to compete for funds. The negative consequences of lobbying can be in the form of excessive public or private funds being diverted to higher education, or misallocation

of resources within the higher education sector. In parallel, the processes through which individuals and institutions attempt to secure a share of these 'contrived transfers' can cause fundamental harm to the academic enterprise.

It is important to note that while rent seeking is related to the much older notion of 'economic rent' (excess returns to a factor of production), its defining characteristic is a focus on the processes by which rents are deliberately created and competed for – as well as the consequences of such processes for society. It is in this sense that the notion of 'rent seeking' is fundamentally concerned with *political economy*, as opposed to narrower concerns with value or simple market mechanisms ([Congleton, et al., 2008](#)).

As a result, the prevalence and harmful consequences of rent seeking may be worse in contexts where institutions and standards are weaker. Unfortunately, for a variety of reasons, this is often the case in developing countries – suggesting that we should be particularly attuned to ways in which rent seeking dynamics in higher education could be more harmful in those contexts.

An emphasis on public higher education institutions follows naturally from a concern with the public interest ('social welfare' in economic parlance): the social costs from misallocation of public funds are, by definition, higher than misallocation of private funds such as those of philanthropists. It is also consistent with the focus of the original economic literature on rent seeking on the use of public institutions to capture social surplus. This necessarily implies that the immediate social costs of rent seeking in public higher education institutions are likely to be higher, but it does not mean that private institutions are any less prone to rent seeking or are any less likely to undermine the academic enterprise in this fashion. Indeed, in countries where private higher education is significant in size and influence – such as the United States – institutional dynamics that encourage rent seeking may be significantly influenced by the culture of private institutions.

The form of analysis described above may at first sight appear to internalize many of the ways of thinking that are criticized in accounts of the so-called neoliberal influence on the academy. [McKenna \(2012, p. 17\)](#), for instance, describes how, "the university . . . has found itself being described in ways that have more to do with wealth creation than with either social justice or disciplinary progress". That is not, however, what is being done here.

The analysis of rent seeking is proposed *in recognition* of the fact that academics and academic institutions have increasingly come to act like profit- or surplus-maximizing entities. In this sense, an analysis of rent seeking proceeds from the increased influence of markets and market mechanisms in higher education ([Dill, 1997](#)). And it is therefore entirely compatible with critiques of the corporatization of academia.

Furthermore, using the concept of rent seeking does not imply that funding for academic research *must* be determined by bureaucratic cost-benefit analysis. Instead it follows from recognition that, however important we may believe academic research to be, there are limited social resources available and many competing priorities.⁵ Attempts to secure greater resources for academics and academic institutions require diversion of those funds from elsewhere, leading – explicitly or implicitly – to tradeoffs.

Finally, the question arises as to the role of individual academics in rent seeking relative to academic institutions and institutional managers. In most countries, the examples of rent seeking described below have come from top-down impositions of new

³ Work in the philosophy of science literature develops the same basic insight in a somewhat different direction. For example, Philip Kitcher critically examines the purpose, achievements and determinants of scientific activity – see for instance his book "Science, Truth and Democracy" ([Kitcher, 2001](#)). And Jesus Zamora Bonilla uses a formal model of knowledge production in economics to ask: "Economists: truth-seekers or rent seekers?" ([Zamora Bonilla, 2002](#)).

⁴ Another classic example of a different kind is lobbying by professions (or 'guilds') to limit the number of newly recognized professionals in order to maintain artificially high wages. For example, an association of accountants may place a limit on the number of new chartered accountants who can qualify in a given year, regardless of skill level attained. By analogy with such examples, some ([Pelagidis and Mitsopolous, 2006](#)) have in fact argued that restrictions placed on private HEIs may constitute evidence of rent seeking by public HEIs. That draws attention to the importance of the substantive merits of such restrictions: are they in fact to ensure quality higher education, or to protect incumbents from higher quality competition?

⁵ This echoes Lionel Robbins' widely-cited definition of the foundational problem of economic analysis: "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" ([Robbins, 1932, p. 16](#)).

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