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HOW FINANCE PENETRATES ITS OTHER:
A CAUTIONARY TALE ON THE FINANCIALIZATION OF A DUTCH UNIVERSITY

Ewald Engelen
Rodrigo Fernandez
Reijer Hendrikse

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ABSTRACT

If any organization ought to be immune to the forces of financialization, it is a publicly funded university in corporatist Europe. Shielded from the intrusion by financial metrics, values and professionals through a strong historically rooted tradition of self- management by powerful professional guilds, continental universities should largely have avoided the marketization and managerialization of Anglophone universities. Not so, this case study of a Dutch public university suggests. From 1995 onwards, a shift in real estate management—devolving responsibilities from the Dutch state to universities— served as a Trojan horse for financialization, triggering changes in organizational culture and a power shift from teaching and research professionals to accountants, real-estate developers, financiers and their ilk. This case suggests that the power of finance is such that no societal domain is immune. The paper ends with a call for more non-metropolitan case studies of financialization and argues that the only hope for salvation is a more self-conscious defense of traditional academic values by the guardians of higher learning themselves.

Keywords: financialization,governance,highereducation,professions,staterestructuring

1. INTRODUCTION

On 20 November 2012, there was a bout of panic at the headquarters of the University of Amsterdam (UvA). That day the Minister of Education sent a report of the National Teaching Inspection Board on the size and nature of the derivative portfolios of Dutch tertiary education institutes (universities, polytechnics, vocational training facilities) to the Dutch parliament. The media were quick on the take up and zoomed in on the claim that it was the UvA whose derivative exposure was particularly worrisome. According to the Inspection Board, the UvA faced margin calls to the tune of €44 million on "naked" interest rate swap contracts written out on future loans for planned real estate projects.The UvA was quick to reject this claim. The Inspection Board had it all mixed up, according to the UvA. Yes, the UvA did possess a total portfolio of €225 million worth of interest rate swaps, and yes, that was the largest nominal amount of any Dutch university, polytechnic and vocational training institute in the Netherlands, but no, none of those swaps were "naked" and hence none of them faced margin calls. It quickly appeared that the Inspection Board had made an Excel mistake: it was not the UvA that was in financial trouble because of its naked derivatives, but the Free University (VU) also headquartered in Amsterdam.

The VU was not alone in this. Together with two other universities, three polytechnics and two vocational training institutes—ie one in ten of all Dutch higher education institutes—faced margin calls over "naked" derivatives. In each of these cases, the margin calls were connected to interest rate swaps, protecting buyers against the risk of increasing interest rates while obliging them to post collateral (margin calls) in case interest rate levels drop below a specified threshold, as obviously, was prone to happen in a post-crisis context where budgetary stimulus (austerity) was off limit and monetary stimuli (zero interest rates and "quantitative easing") were by default the only remaining policy options.

Just as not everything is supposed to be for sale, as is famously argued by Michael Sandel (2012) and others (Kuttner 1997; Radin 1996; Walzer 1982), so not every institute or every jurisdiction is supposed to be prone to processes of financialization to the same extent. No matter your take on universities, with their strong rootedness in decade-long traditions of guild-like professionalism (Abbott 1988; Johnson 1972; MacDonald 1995) they should be the organizations par excellence to be immune to financialization. For financialization, or for that matter commodification and marketization, consists of organizational penetration by a set of metrics and values that are "carried" from the "outside" to the "inside" by financial specialists—bankers, accountants, real estate managers, economists, consultants—whose "logics" would immediately conflict with those of the teaching and research professionals who, historically, used to largely self-manage universities (Collini 2012). Processes of financialization would hence automatically run up against well entrenched professional interests in non-change and would hence have an especially hard time "penetrating" institutes of higher learning such as universities.

This would particularly be the case, so we surmise, in universities embedded in jurisdictions and institutional contexts that, according to the comparative political economy literature, are less prone to (financial) market forces. Following the categorization of Hall and Soskice of the Netherlands as a less market-based and a more negotiated, coordination-oriented political economy (2001), we would hence expect Dutch universities to be well protected against the forces of financialization to which UK- and US-based universities are especially subjected (see Brown and Carasso 2013; Slaughter and Leslie 1999). While we are fully aware of the hybrid nature of some aspects of the Dutch business model, as we ourselves have spelled out elsewhere (Engelen et al 2008, 2010; Engelen 2014), we feel confident that the Dutch welfare state as such, of which higher education is a part, has proven to be

relatively immune against the twin eroding influences of neoliberalism and financialization as is demonstrated, for instance, by a relatively large public sector and a relatively high level of employment protection in the Netherlands (OECD 2008).

Not so, as the anecdote above referencing our own Alma Mater forcefully demonstrates. For this episode clearly suggests that Dutch universities have become big consumers of investment banking products and have not been above a bit of speculation (on rising interest rates) themselves. This implies a strong need for more de- tailed and more critical analyses of the subtle and not so subtle ways in which finance has penetrated its "other". Since most of the literature on the commodification, managerialization and neoliberalization of universities draws on UK and US empirics (see Castree and Sparke 2000; Pollitt 1990; Power 1994, 1997), we have set this paper up as an "informal comparison" with that literature, based on the logic of a "most unlikely case study" (Gerring 2007). The "informal" part of this methodological formulation means that we have not conducted a full blown comparison of the recent changes in the landscapes of higher learning in the US and the UK vis-à-vis the Netherlands as a representative of Hall and Soskice's population of coordinated market economies, but rather have written up the story of the financialization of a single Dutch university, to wit: the University of Amsterdam (UvA), which we, as (former) employees, simply know best,and have done so against the backdrop of the extensive Anglophone literature describing and discussing changes in US and UK universities which highlight strong similarities despite huge differences in institutions, histories, cognitive templates and established practices.

The "unlikely" nature of this case—universities being mostly publicly funded on the European continent, including the Netherlands; being controlled by vested, well established professional guilds with strong state backing, as befits corporatist (corpora being the Latin word for guild) political economies (Krause 1996); and being embedded in a jurisdiction with a "strong" state being permeated to a much more limited extent by the forces of financialization than is the case in Anglophone jurisdictions—suggests that if even in this unlikely case we can trace fundamental changes in its professional "logics" due to the influx of financial metrics, values and competing professionals, we have to conclude that nothing is safe and sacred any more for the pernicious effects of financialization and—in a more traditional academic vein—that the Anglophone slant of most financialization studies misses out on the fact that this is a much more "universal" phenomenon, crying out for more non-metropolitan case studies (eg Hendrikse and Sidaway 2013). If our story suggests anything it is that we now truly "live in financial times", to borrow the banner of the Financial Times, from which there is no longer any refuge, unless, that is, if we, the inhabitants of these collective repositories of the long history of human knowledge and wisdom, wake up to these facts and start using our professional re- sources politically in a long overdue attempt to kick the bean counters and their managerial allies out of our temple.

This paper tells this cautionary tale through a conceptually guided reconstruction of the financialization of the UvA and consists of three parts. The first gives our take on the burgeoning financialization literature, highlighting those elements that are functional for our argument. The second presents the empirics of our case study. And the third part concludes, spelling out negative consequences and dangers, and ending with a call to arms.

2. FINANCIALIZATION CASE SPECIFICALLY OPERATIONALIZED

Financialization, like most social science concepts, is contested (see Engelen 2008; Engelen and Konings 2010). Most of these contestations relate to boundary issues: how, in what way, is financialization different from commodification and marketization and, subsequently, how does it relate to other large, process-like concepts such as globalization

and/or neoliberalization? Here we have no intention at all to way- lay these issues once and for all. Rather, we try to be conceptual minimalists by using, pragmatically, only those dimensions, known to be linked to financialization, that are functional for the task at hand, namely to determine the level, extent and modes of financialization of our case. To do so, we start from a fairly straightforward and widely accepted definition, which states that financialization refers to societal changes which result in an "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005:3). This definition is sufficiently wide, or unspecified if you wish, to capture both the "hard" materialist side of the financialization literature, focusing on accumulation and innovation typically based on aggregated economic data and comparisons, and the "softer" culturalist accounts focusing on narratives and performativity typically based on more ethnographic methods and single case study logics (eg Froud et al 2000, 2006; Krippner 2005, 2011; Langley 2007; Martin 2002; Martin et al 2008; see Ertürk et al 2008 for an overview and categorization of the literature).

Next we have to operationalize the abstract concept of financialization in a number of steps of incremental concretization to make it applicable to the case at hand. Here we inevitably meet techniques, metrics, values and professional expertise that figure in more than one conceptual field. For instance, the case of the UVA clearly demonstrates the influx of typical neoliberal policy instruments such as New Public Management (NPM), widely understood as "schemes of organization and control ... imported from business" (Connell et al 2009:334; see Pollitt 1990; Saint-Martin 2000), to which public services, and even the state, more widely have increasingly been subjected. Universities, as has been widely noted, have not been exceptions to this.

Here, however, we are not so much interested in organizational mimicry (DiMaggio and Powell 1983) of the behavior of private for-profit firms, but rather in the taking up of specific financial managerial practices and techniques within the governance structure of the UvA. This is hence the first indicator we use in this paper to determine its extent of financialization: have financial metrics affected the governance regime of the university?

Second, as is suggested by the empirical literature on financialization, there is always a "something" that serves as the Trojan horse for financialization: a specific financial technique, a changing environment (eg the retreat of the state; Hacker 2006) or a particular asset. As is indicated by the Great Financial Crisis, and what has historically proved to be the case (Reinhart and Rogoff 2011), the perfect Trojan horse for increasing the dependency of citizens upon financial markets, and hence increasing their vulnerability to financial market volatility, is real estate. There is now a budding comparative political economy literature on residential capitalism or real estate financialization spelling out the long-term consequences of (the bursting of) real estate bubbles for national political economies (Schwartz and Seabrooke 2008). Similarly, in a more culturalist, micro-sociological vein there is also a wealth of material on the "performative" effects of real estate investments in the form of replacing citizenship subjectivities by investor subjectivities (Langley 2008): during real estate bubbles subjects have a tendency to ascribe to an investor rationality and to take on accompanying identities. Again we will use the extent to which organizational decision-making at the UvA became hijacked by real-estate-based considerations as well as the degree of self-identification by the governors of the UvA with real estate interests as an indicator of financialization.

Finally, as suggested in the introduction, the penetration of organizations by financial metrics is by necessity accompanied by interprofessional contestation, since these metrics are adopted, institutionalized and legitimized by distinct professions (see MacKenzie 2006;

Whitley 1986). This insight derived from the sociology of professions suggests that, especially in the case of guild-like organizations such as universities (but courts, law firms, hospitals are no exception), one would expect both aggregate changes in the professional composition of the governance structure, ie a power shift between representatives of different, competing professions (from professorial self-management to increasing subservience to financial managerial professionals), as well as increasing instances of inter-professional strive. So the indicator simply reads: do we see this occurring in our case?

With this minimalist conceptual apparatus in place, we now turn to our case his- tory, going through our three indicators in causal order. So we start with an analysis of the extent to which the organizational logic of the UvA has over time become burdened by real estate considerations. Next we turn to a discussion of the extent to which financial metrics have come to dominate internal organizational practices. We end with indications of inter-professional strife.

3. THE CASE: HOW DID FINANCE CONQUER THE UNIVERSITY?

3.1 Real Estate as Trojan Horse?

As student populations rapidly increased from the 1960s onwards, public funding rose accordingly. Total expenditure on Dutch higher education as a percentage of GDP reached its maximum of 1.6% in 1977, as a result of rapidly rising student numbers and facilitated by a state that had not yet run into the fiscal crisis of the early 1980s. This rapid increase was accompanied by extensive state-sponsored building activities. Although figures differ substantially per university, most of the real estate currently owned by Dutch universities dates from that period. For our case it is estimated that 64% was built in the 1970s (Den Heijer 2011). This percentage is important because it dictates much of the current real estate costs of the UvA. With an average economic life cycle of 40–50 years, many Dutch university buildings are currently in need of replacement or renovation, adding substantially to the financial woes of Dutch universities.

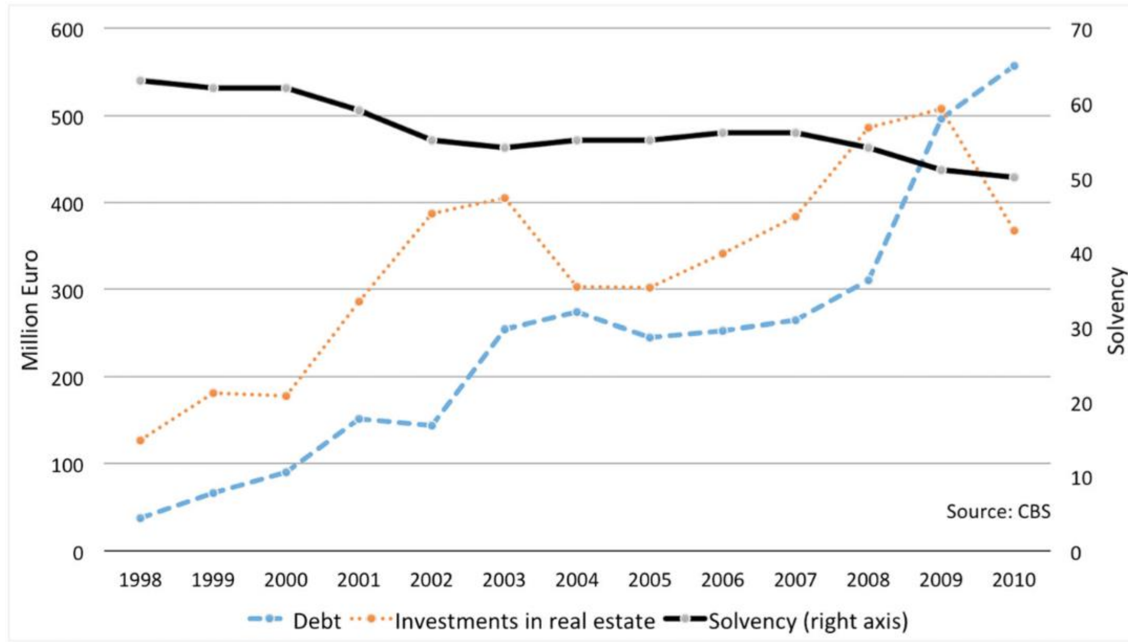
The most vivid illustration of the neoliberal reorientation of the state towards Dutch universities and hence a key moment in our story was the 1995 decision to transfer the ownership of public real estate wholesale to universities (and schools, hospitals and other semi-public organizations), having a dramatic and immediate impact on university balance sheets. Figure 1 details aggregate solvency ratios, total real estate investments and debt levels of Dutch universities from the late 1990s to 2010. Debt and investment are expected to peak around 2015, as most current building activities by Dutch universities are planned around that period. However, the years preceding the expected peak reveal how debt and investments have exploded while solvency ratios have declined.

The buildings of the UvA were mainly located in Amsterdam's historic city center. Policy documents from the 1990s onwards demonstrate that this was seen as being crucial to the identity of UvA, which as a so-called city-university was seen to generate a competitive advantage over other, campus-based universities in the war on talents and students (UvA 1994; 1996). However, the property portfolio was widely scattered over the city, increasing the cost structure. As such, clustering the future physical layout of the UvA in a limited number of locations to contain real estate costs became the central strategy from the outset.

Prior to 1995, education and research requirements had been the sole considerations feeding into real estate planning, and universities simply requested funds from the Ministry according to these requirements. After the real estate transfer in 1995, real estate planning would be guided by core activities and what was then called a "commercial real estate approach" (UvA 1997a). The first step consisted of an inventory of the available data and

the formulation of a more detailed set of management principles. The exercise revealed large difficulties in projecting future needs in terms of floor space and costs per faculty. For one, real estate planning is a long-term venture while student numbers are prone to short-term fluctuations, which are hard to extrapolate. By 1997 student and staff numbers had declined significantly, which the UvA believed to be structural, whereas in fact it marked a turnaround after which student numbers have annually increased.

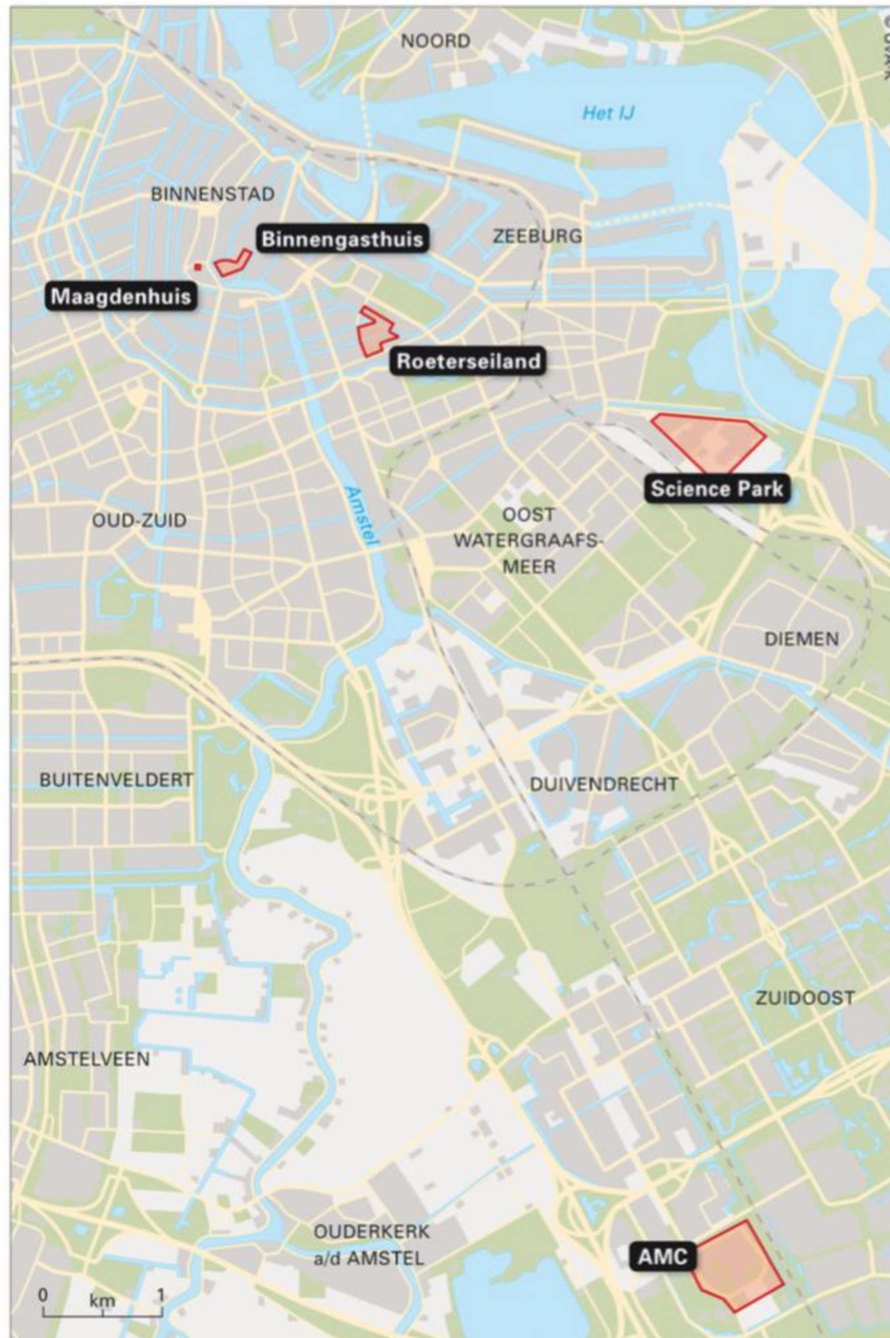
Figure 1: Selected financial indicators for universities in the Netherlands



Source: by autor.

The 1998 real estate investment plan envisioned a reorganization of the UvA into four clusters—the natural sciences in a new complex in the East of Amsterdam (Science Park), the medical sciences (AMC) on the Southeastern periphery (Bijlmer) of Amsterdam, the social sciences in the Eastern part of the city center of Amsterdam (Roeterseiland) and the humanities in the heart of the city (Binnengasthuis) (see Figure 2)—reducing total floor space from 255,100 square meters in 2000 to 239,000 in 2015 (UvA 1998b; 1999). The projected costs were 1 billion guilders (€455 million). While the period to realize the plans was estimated to be 15 years, the financial burden would weigh on the UvA balance sheet until 2030, with investments peaking in 2010–2014 (KPMG 2000; UvA 2000b). Of course, a project this size could not be financed through mere savings. In fact, a 1999 inquiry by the Ministry of Education revealed that the property transfer created an estimated deficit of 1.6 billion guilders (€725 million) for Dutch universities and gave a number of rules of thumbs for prudent financial management to overcome this deficit (Koopmans 1999).

Figure 2: The four UvA clusters and the Maagdenhuis head office.



Source: by autor.

The UvA chose to ignore these rules for two reasons (UvA 2000b). First, because the norms for asset management and debt levels (current ratio and solvency ratios) were based on aggregate figures regarded "unfit" for the UvA for reasons of size, age, dispersion and location of its real estate. Second, because the governing board of the UvA did not want to wait for the state to come up with compensation for existing deficits and wanted to keep its fate in its own hands. The result was that its real estate investment plan had to work with ceteris paribus clauses. In fact, it assumed that state budgets would not be cut, that student fees would not decline, that interest rates would remain unchanged, that building cost increases would not exceed inflation, and finally, that excess capacity could be rented to third parties at market price. These assumptions, of course, proved way too optimistic.

In 2002, the state decided to cut the overall budget for universities by 4%. This was framed as "efficiency cuts" to be achieved through productivity increases, keeping research and teaching output targets stable. It boiled down to an annual loss of income of €14 million for the UvA having a decisive impact on its real estate plans, as its governors frantically sought to reduce costs by 5% (UvA 2002a). Since its launch, a number of smaller real estate projects under the real estate investment plan of 2008 had already been realized, but the bulk of it was still in the planning stage. The 2002 audit report concluded that while the vision was clear, the financial strategy was not (UvA 2002b). A complication was the discovery of asbestos in a number of buildings, with removal costs initially budgeted at €72 million (UvA 2004). Although the final costs came to a third of this amount, it added to the in- creasing financial burdens of the UvA.

In fact, asbestos removal turned into a larger organizational (and financial) problem. It demonstrated how the different steps of the real estate project were intertwined, as one part of the project could not go ahead until others were finished. The result was a costly 2-year delay, underscoring the complex task of coordinating processes moving at different speeds. To ensure better process management, two teams were created, each consisting of UvA managers and specialized external consultants. One team was responsible for delivering the required data, including future costs and floor space use of each faculty. The other team would be responsible for describing the steps ahead and managing the actual real estate development, which was, at the time, outsourced to commercial real estate developers such as Trimp and Van Tartwijk. The first team can still be traced to the UvA head office unit known as Strategy and Information, whereas the second team was the precursor of what is now known as Real Estate Development.

The result was a new investment plan that kept total floor space at 239,000 square meters while granting a new role to the faculties, which would be transformed into co-owners of the real estate. Financially, this meant faculties had to take on 10% (€50 million) of total investments, to be realized through a novel incentive scheme consisting of an owner–tenant system in which real estate costs were added to the internal price faculties were charged for real estate use. Furthermore, it became apparent that the new project-based financing of research demanded more flexible office space. As the phase of finalizing the project description came nearer, so did the level of detail, yet large uncertainties remained, in particular those relating to student numbers and basic budgetary parameters.

Despite these contextual uncertainties, the governing board of the UvA decided to pursue its real estate plans and started credit negotiations with four banks (ING, ABN AMRO, Rabobank and BNG, a state bank owned by Dutch municipalities), discussing an array of different financing schemes. In 2002 the total investments were estimated at €525 million, and total credit needs at €230 million over a 30-year period. The negotiations focused on three dimensions. The first was a choice be- tween public (BNG) or private funding (the other three at that time). The second was loan flexibility. As the project was complex and uncertain, it was difficult to know in advance when and how much credit was required. Either the loan could be split in tranches, so-called "bullet loans" to be taken out at different intervals, or a flexible deal could be arranged in advance for the lump sum. The third concern was the degree to which interest rate risk could/should be hedged with derivatives.

Tied to the financing schemes was the issue of how to design the UvA legal structure so as to minimize fiscal obligations. As a foundation the UvA was not liable to pay corporate income tax, meaning that value-added tax (VAT) and interest could not be deducted. One solution was tax planning combined with financial engineering. Off balance sheet vehicles and sale-and-lease-back constructions tied to the real estate activities offered fiscal relief,

reaping the tax deduction benefits of a private company while the holding retained its status as a public entity. Although we do not know to what extent the UvA adopted such savvy constructions, it reveals how banks come to rewire the organizational setup of their (non-profit) clients. Yet despite such considerations and efforts, a 2004 report by Brink Groep concluded that the existing real estate plans were untenable, chiefly for financial reasons: the consultants were skeptical whether the overall indebtedness could be kept below a maximum debt threshold of €230 million and above what at that moment in time was seen as a critical solvency ratio of 35%.

This all changed in 2008, in the midst of a nationwide real estate boom which was on the verge of collapsing, as was indicated by an early, albeit largely rejected warning from the IMF in its April 2008 World Economic Outlook (IMF 2008). Suddenly cost considerations were no longer the main concern. Instead, a new report conducted by AT Osborne determined the financial feasibility of a qualitatively upgraded real estate vision. The expectation was that, by following a new "small in big" campus orientation—a cosmetic reframing of the original four cluster plan—the UvA could become a winner in the future war on talent, implying that its financial possibilities were much larger than earlier assumed. As a result, estimated costs could be increased to €617 million, up from €525 million in 2005 and €455 million in 2000 (UvA 2009). And while the 2005 plans required a maximum credit of €230 million, the 2008 plans doubled the stakes up to €400 million (UvA 2007, 2010).

The key performance indicators, or KPIs as they are called in managerial newspeak, allowing for these amplified real estate ambitions were twofold. First, total costs of real estate—eg servicing the loans, maintenance, temporal housing, moving costs —should not exceed 12% of the total budget. This threshold was the outcome of abenchmarking exercise based on the real estate costs of English universities with similar cost profiles. Second, the solvency ratio and debt service coverage ratio (DSCR), ie the ratio of debt service costs and cash flow—closely watched KPIs by bankers— should remain within their respective limits: 20% for the solvency ratio and 1.2% (now 0.5%) for the DSCR. While the 12% total budget parameter is set internally, aiming to limit the total real estate burden upon teaching and research activities, the solvency and debt service coverage ratios are critical to the UvA credit rating.

Concerning the solvency ratio, the valuation of the existing real estate stock is critical, as it co-determines the value of the equity of the UvA, and quantifies the estimated income the university is to receive once certain buildings are sold on a net present value base. In case the ratio declines, more debt has to be acquired to keep the project going. Ultimately, such a scenario might force the UvA to exceed its 12% threshold, resulting in a redirection of cash flow from teaching and research to servicing debt. Thus far this has not happened. However, in the current context of depreciating real estate values in the Netherlands, the pressure to use more lenient accounting principles in order to maintain a good equity share, and hence a satisfactory solvency ratio, is progressively increasing.

3.2 What about the Metrics?

As we suggested above, the property shift of 1995 posed more stringent demands on the information flows within the UvA related to costs, profits, assets and liabilities than were needed in the much smaller and much more simple self-managed university of yesteryear. The diktat of accounting metrics to reorganize an organization—caused, in this case, by the sudden need to manage a sizeable stock of real estate—is a classic stratagem in the consultancy industry, first developed by James McKinsey of the eponymous firm (McDonald 2013). The post-1995 UvA proved to be no exception to this consultancy rule. This, in our view, is the first, most striking way in which the devolution of responsibility

for real estate to the universities set in motion a process of internal reorganization to produce the transparent cash flow metrics that were required to service the rapidly growing real estate debt.

The 1997 reorganization of the UvA governance structure (of which later more) aimed to create "inner market functions" (UvA 1997b). Instead of lump sum financing, the different units comprising the UvA—education, research and services—would receive funds based on a small number of KPIs. In doing so, academic output was tied to budget allocation, requiring a system to measure, validate and register output. Whilst teaching could easily be adapted to an output-oriented system (combining student inflows, numbers, graduations, and study points), research could not and was excluded from reform at this stage. It was believed that the move towards an output-oriented system involved learning-by-doing and that, over time, the cost structure of research would be uncovered, enabling a similar quantification of research output (UvA 2000).

The underlying premise was that a market-oriented system would increase transparency and, importantly, would put in place the right incentives (UvA 2000a). This would enhance research quality, attract more students, and increasethe competitive position of the UvA at home and abroad. While the executive structure was centralized to satisfy the need for professional project development, real estate management and their financing, internal flow of funds were increasingly decentralized and tied to centrally determined output-oriented KPIs. Faculties and their staff were largely bypassed in the new scheme. Instead, funds would be directly allocated to the underlying departments, research and teaching institutes.

Although implementation would be lengthy, the move towards linking funds to output and the need to set up a broad, centralized control system was clearly key to the new governance system. Part of the system was a set of covenants between faculties and the governing board, embodying a more "businesslike" culture based on "arm's length management" from the side of the governing board (UvA 1995). It also set out to create "markets for staff" at sub-faculty level. Staff and budget allocation were split into distinct "profit centers"—departments, institutes and support units—all hiring staff and/or services from one another, using an internal cost budgeting system that allowed for more and better central control of internal cash flows (SEO 2001; UvA 1998a). The income of each profit center was determined by separate performance metrics as set out in the covenants (UvA 1997b). The (professional) dean of each faculty was responsible for the functioning of the sub-faculty "markets", and reported to the governing board.

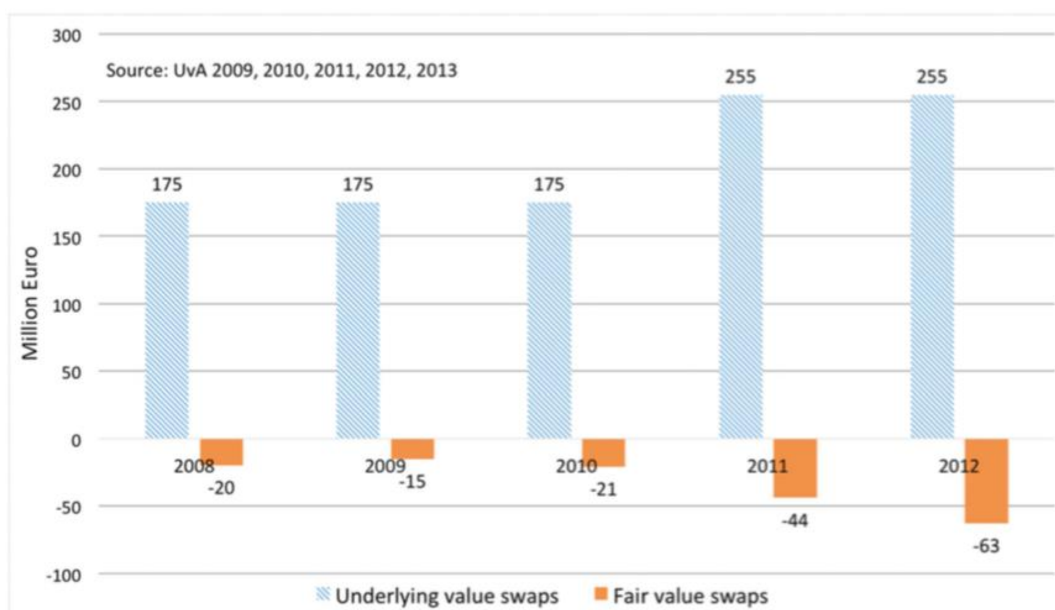
Although the promise was greater transparency and more efficiency, in practice the excessive complexity of the system largely undid any efficiency and transparency gains (UvA 2000). Path-dependent historical legacies had created a complex archipelago of chairs, funds, research units, specializations, departments and "special relationships" (some professors were more equal than others) that did not easily "fit" this straightjacket. As a result, reconfigurations in the cost model automatically produced "winners and losers", resulting in more, not less, political infighting, and in a more, not less, politicized fund allocation (UvA 2000).

In 2006 all the elements were in place to transform the UvA from a self-managed anarchical archipelago of small faculties into a set of interlinking "internal markets for staff and stuff", centrally directed by the governing board through a series of covenants spelling out output-based KPIs. This new university model consisted of a legal holding managing a large number of independent profit centers—eg ICT, library, real estate, manpower agency, research institutes (SEO), a publisher (AUP)— as well as seven faculties. The holding receives state funding on the basis of a weighted mix of enrollment figures and graduation numbers. These funds are subsequently reallocated internally according to a model based

on student inflows, a point-based teaching output model as well as numbers of graduated master students. The faculties, in turn, pay the other profit centers for services delivered.A similar structure has been set up for research. The outcome has been an increasing need for quantitative metrics to measure (teaching and research) output, resulting in a steep increase of the administrative burden for teaching and research staff, more pressure to standardize courses and their management, adverse incentives to beef up output, in both teaching and research, as well as infusing academic practices with a subtle bias towards "normal" science which generates quick and easy returns in the form of measurable increases in scores such as the H-index or number of publications and quotations in the web of science for promotion purposes and a downgrading of research outcomes (books, multidisciplinary papers, op-ed pieces) that do not fit these metrics. One unintended consequence has been the increasing politicking over these metrics among staff, especially when new metrics are being introduced ("valorization") or when research assessment exercises are just around the corner.

An even more pernicious (indirect) and more relevant effect of the property shift for the self-image, self-understanding, internal organization as well as long- term sustainability of the university has been the need to buy itself—lock, stock and barrel—into the universe of investment bankers, derivative products, risk management, solvency ratios and cash flow management. To appreciate this, consider the UvA borrowings. In 2008 the UvA took out its first bullet loan of €55 million. As a result, the UvA, for the first time in its history (established in 1632) became a net debtor (UvA 2009). In 2011, total outstanding debt had increased to €136 million, and is now expected to reach a stunning €400 million in 2018 (UvA 2012). The two banks with which the UvA ended up doing its business—BNG and ABN Amro (HBU division, now Deutsche Bank)—were quick to warn the governing board of credit risks and convinced the UvA that it should take out derivatives, interest rate swaps, to hedge the interest rate risk linked to the loans. In 2002 the UvA bought its first swaps, to the tune of an underlying notional value of €35 million. As Figure 3 demonstrates, the derivative portfolio quickly increased, demonstrating an enhanced vulnerability of the UvA to financial market abuse (eg interest rate fixing) and financial markets shocks on the back of its real estate loans.

Figure 3: Notional and market values of UvA derivatives portfolio.



Source: by autor.

Since 2002, the underlying notional value of its derivative portfolio increased from €35 million to €255 million. Currently the UvA owns 10 interest rate swaps. All of these swaps "exchange" variable (1- or 6-month EURIBOR) interest rates for fixed interest rates, thereby exchanging uncertain future interest payments for a secure flat rate of maximum 5% on the underlying loans. As variable EURIBOR rates have remained extremely low over the course of the crisis, the market values of the swaps have progressively produced losses: from €22 million in 2008 to €63 million in 2012 (and counting). However, these losses are "paper losses" only, reflecting their fair value to be paid in case the contract matures or the UvA wishes to unwind the contracts.As the swaps serve as risk management tools to secure fixed rates only, the UvA has no intention to undo these contracts, most of which have a maturity until the mid-2020s or beyond (UvA 2013:122). Furthermore, the UvA is not required to put up collateral for negative market values, as is the case with "naked" derivatives such as those owned by the VU.

Having said this, this does not mean that the UvA does not run financial risks on its derivative portfolio. In 2013 the first swap expired. According to the 2012 annual report, the 2012year-end market value of this swap was minus €1.3 million (UvA 2013:122). Moreover, as a result of Dutch accounting practices the UvA (as well as other non-publicly quoted firms and semi-public organizations) is able to exclude paper losses on its derivatives portfolio from its annual profit and loss (P&L) accounts, leaving the crucial solvency ratio on which so much hinges unaffected. However, this exception to the international rule has increasingly come under pressure. If existing rules were to change to conform to international conventions, the UvA might be required to reserve €63 million now to absorb future losses on its derivatives. Needless to say, this will negatively impact the crucial solvency ratio, potentially setting in motion a chain reaction that could jeopardize its real estate plans.

3.3 Was there an Interprofessional Shift of Power?

As we suggested above, financialization entails a fundamental transformation of the "logic" of an organization as a result of the increasing penetration of that organization and its administrative apparatus by financial metrics. In the section above we encountered two examples of such organizational change-by-metric. However, metrics do not penetrate on their own account but require "carriers", in the same way infectious or sexually transmitted diseases require "spreaders". As we indicated in the introduction, we expect universities to be rather immune to change-by-financial metrics due to its well developed professional ethos, which does not easily allow for a shift of power from the bulwarks of self-management (professorial guilds) to financially savvy outsiders. In this section we present some proofs of such a power shift in our case. We begin with a bit of context.

The self-managed university in the Netherlands was very much a product of the cry for more grassroots democracy of the student protests of the late 1960s. The le- gal response to this call, reflecting a well tried Dutch elite strategy of de-escalation by accommodation (Kennedy 1995), was the 1970 Academic Governance Act. This Act gave staff and students equal voting rights on academic affairs and allocated most decisions to the faculty level, which in those days were small-scale affairs. However, on the back of increasing student numbers in the 1970s and 1980s, thisproved to be increasingly cumbersome, leading to near endless political battles between students and staff or between different factions of staff, while leaving the university-level governing board without any means for long-term strategic planning. In the context of the mid-1995 real estate shift this became untenable.

The response was the 1997 Modernization of the Academic Governance Act. This piece of legislation radically broke with the grassroots logic of its predecessor and installed a mode of governance which closely mimicked the corporate governance model of the publicly

quoted limited liability corporation, concentrating decision- making power in a professional executive board composed of full-time managers, with supervision being delegated to a board of professional supervisors. Even more important was the associated power shift from the faculty level to the board level, while the number of faculties was gradually reduced to seven and was brought un- der professional, full-time management too. In one big legislative sweep, staff and students were disenfranchised, as decision-making power was concentrated in the hands of a small number of professional managers.

This had immediate consequences for the composition of the board. While formerly the governance board of the UvA consisted mostly of older professors with a knack for circulating at social events where the Dutch policy-making elite tends to meet and with social networks to match, after 1997 the UvA increasingly came to select former politicians, experienced managers from other public services as well as former partners from law, consultancy and accountancy firms, not to forget the stray retired professor of course. The 2013 board, for instance, consisted of a former dean of the Faculty of Psychology of the UvA, two professional managers coming from other semi-public institutes, and a former partner from Deloitte, one of the "Big Four" accountancy firms—and this is fairly typical of Dutch universities.

Indicative of the kind of "professionalization" the corporatization of Dutch universities has initiated are the transformations that the staff departments of the head office of the UvA have undergone. The property shift required a better, more transparent information system for the university as a whole, to deliver the data that are required to keep track of the key figures linked to financing the huge real estate projects that the UvA planned to undertake from the late 1990s onward. The in- creasing interaction with commercial real estate developers, accountants, consultants and (investment) bankers resulted in a strongly felt need to possess in house the kind of expertise that is required for these interactions. To put it bluntly, due to its increasing indebtedness the UvA needed to up its game in order not to be slaughtered by its new, for-profit partners.

As a result, what used to be a relatively small head office, dedicated mainly to Academic Affairs—formulating the strategic goals related to teaching and research, maintaining contacts with institutes like the national research council—over time developed into a powerful command and control center dominated by real estate, finance and accountancy professionals. A case in point is the history of the internal audit unit. Set up in the mid-1990s, it consisted of a mere handful of professionals, mostly with a public sector background. In 2006 it was relabeled Concern Control, reflecting the concentration of power at the level of the board ("concern") caused by the implementation of the new governance Act. It now consisted of over 10 professionals, some with a private sector background, with a still large portfolio of responsibilities, ranging from real estate management to auditing, internal information provision and strategy.

Initially, the concentration of responsibilities was facilitated by the outsourcing of real estate development to a commercial real estate developer, Trimp and Van Tartwijk. However, when Trimp and Van Tartwijk became entangled in the largest corporate fraud case in Dutch history in 2008 (Van der Marel and Van der Boon 2010), the UvA was forced to insource its real estate development and reorganize and professionalize its staff functions. The outcome—in 2011—was a new corporate structure, consisting of separate units for the different functions that the older Concern Control unit used to undertake. Real Estate Management, Finance and Control, and Strategy and Information are now the largest and most important units of the UvA holding. Of the 201 employees working at the Maagdenhuis, the headquarters of the UvA (see Figure 2), eight are working in Strategy and

Information, 13 in Finance and Control and no less than 21 (!) in Real Estate Management, making it the largest unit of all.In contrast, Academic Affairs fields only seven employees.

Even more telling is the professional background of many of these newly hired professionals. As far as possible we have tracked their CVs through professional networks like LinkedIn. Many of the new staff have worked for the "Big Four" accountancy/ consultancy firms. Some appear to have lived the nomadic professional lives of consultants and interim managers and have moved from project to project, in this case from real estate project to real estate project. Many more than used to be the case have worked for the private sector, some for publicly quoted corporations. The most striking addition to the Maagdenhuis-based workforce is a Chief Risk and Security Officer who doubles as a Corporate Risk and Insurance manager and has a background as a broker for Generali, the big Italian insurer.

Not only are most of these employees new hires—many of them started at the UvA with the onset of the 2011 reorganization—suggesting a rapid increase in staff numbers on the back of perceived information and expertise disadvantages as real estate development and its financial needs truly took off, it also suggests a willing- ness on the side of the UvA to adapt academic salary scales to the norms of the (para-) financial sector, in fact creating a two-tiered salary structure, with teaching and research staff subsumed under the union-dominated collective agreement- based wage system and the financial professional staff, as well as the governors themselves, belonging to a separate, private sector conforming one. A forceful indication that finance and its "spreaders" now run the show.

4. Consequences, Dangers, and What To Do

The story so far clearly suggests a strong penetration of the UvA by financial values, metrics and professionals. Financial professionals have largely taken over the apex of the organization, have succeeded in transforming its organizational matrix as well as its information and cash flows in such a way that it became "legible" to financial outsiders (read: banks), and have been able to do so without much contestation due to the disenfranchising of staff and students by the new, legally pre- scribed corporate governance structure of 1997. The effects for staff and students were mostly negative: less professional autonomy, more administrative chores, more overhead, more standardization, higher throughput and less academic exchange.

And indeed, as we already surmised in the introduction on the back of the historical financial crisis literature, the lever proved to be property shift of 1995, forcing universities to take up responsibility for their own real estate and effectively driving them into the hands of big banks and their minions (accountants, consultants, lawyers, real estate specialists). In that sense, our case serves as a cautionary tale: the corrosive and seductive powers of finance are indeed so strong that even in the highly unlikely case of a European continental university we can observe far reaching changes in its organizational logic due to the influx of financial values, metrics and professionals. Form an academic point of view this suggests a need for more non-metropolitan studies of cases of financialization in order to draw out more general statements about what in these "financial times" is similar across jurisdiction and what is different (see Engelen and Konings 2010 for a similar plea).

Of course this case is of more than mere academic interest. The story so far suggests that financialization is not without danger. In our judgement, the combination of (over) ambitious real estate development, increasing indebtedness and the concomitant dabbling in financial engineering through interest rate swaps makes for a highly toxic mix that could easily blow up in the face of the highly paid financial professionals occupying the Maagdenhuis, with huge consequences for teaching and research. We can imagine a

number of nightmarish scenarios: ongoing negative market sentiment and/or continued low interest rates; a book loss and/or depreciation on property values; changes in accounting conventions resulting in a downward revaluation of real estate and a weakening of the crucial solvency ratio.

None of these things are predestined to occur. But because of its real estate ambitions and its overextended balance sheet the UvA has progressively lost the capacity to determine its own fate. As an institute of higher learning, with teaching and research as its societal mandate, it has become dangerously dependent on financial market developments over which it has no control. The result is an organization that increasingly has to resort to smoke and mirror-like accountancy gimmicks in order to guard the sacred solvency ratios required by its house banks.

For instance, in 2007 the UvA revalued its real estate stock upwards with €48 mil- lion by moving to a different valuation method (UvA 2008). Of course, the move was legitimated by a storyline that suggested that the new method was more in line with market practice—but conveniently beefed up the solvency ratio of the UvA too. While inflated real estate values were beneficial for the solvency ratio, they simultaneously implied higher depreciation costs, biting into annual cash flows available for interest rate payments and hence crucial for determining the loan ceiling. In or- der to counter this effect, the accountants of the UvA simply doubled the deprecation period—from 30 to 60 years—with a stroke of the pen. The prima facie rationale was the introduction of a new calculative system, based on a so-called "component method", which calculates variable write-down periods for different real estate intervention, eg building, renovation and maintenance. But again it conveniently deflated the deprecation costs, enhanced annual cash flows and positively affected the financial indicators that banks use to determine maximum loan capacity. It indicates that the UvA, by extending its leverage and balance sheet, is in danger of strangulation by debt, risking the funding streams to the activities for which it was established: teaching and research. On any measure this should be deemed unacceptable.

Just as risky is the way in which financialization interacts with the managerialization of universities, deepening the disenfranchisement and deprofessionalization of the teaching and research staff. There is now an extensive literature on how these processes have increasingly turned the university into a Fordist production machine for academic certificates, making a parody of what academic teaching and research should be about, namely non-interested, curiosity-driven additions to and reproduction of the collective repository of systematically corroborated insights that we call academic knowledge. Here is Stefan Collini in a recent contribution to the London Review of Books, which may stand for many such complaints:

The logic of punitive quantification is to reduce all activity to a common managerial metric. The activities of thinking and understanding are inherently resistant to being adequately characterised in this way. This is part of the explanation for the pervasive sense of malaise, stress and disenchantment within British universities ... It is the alienation from oneself that is experienced by those who are forced to describe their activities in misleading terms. The managers, by contrast, do not feel this, and for good reason. The terms that suit their activities are the terms that have triumphed: scholars now spend a considerable, and increasing, part of their working day accounting for their activities in the managers' terms (Collini 2013; see also Collini 2012).

The UvA is no exception. As we demonstrated, the property shift caused a simultaneous power shift in the organizational structure from bottom to top and from teaching and research professionals to a new phalanx of financial professionals hired to manage the newly acquired real estate portfolio and the financial and strategic responsibilities and

obligations it entailed. In order to determine its loan ceiling, organizational information flows had to be made transparent and hence had to be standardized, to make the internal organization "legible"—in a literal Scottian version (Scott 1999)—to creditors. The result was a top-down imposing of market-like output metrics, which did not fit the historically grown academic conventions and hence required a slow but steady process of redesign of courses, administration, didactics and research. In that sense, finance is almost literally like a venereal disease transmitted by professional "spreaders" such as accountants, lawyers, bankers and real estate developers, who, on the back of different kinds of real estate events (the property shift of the Netherlands of 1995, the "ownership society" of Clinton and Bush, the "property owning democracy" of Thatcher or the stakeholder theory-driven increase in home ownership of the Netherlands), slowly but inevitably pervert the intrinsic values of venerable institutes like universities, building societies, municipalities, households and individuals.

Thus, what is happening to contemporary universities, on the European continent as well as in Anglophone countries, is typical for a wider, societal enslavement to financial values, metrics and professionals, which, paradoxically, has not weakened after the crisis but strengthened, due to the financial logic of growing indebtedness on the back of deflating real estate values, resulting in increasing incidences of almost eighteenth century financial indenture. Indeed, students are nowadays forced to transform themselves into "financial subjects" to enjoy education. Given the excessive legal protection of creditors in European jurisdictions and the steely constraints of financial obligations it generates, there is no easy way out. A Jubilee for instance is, alas, not on the horizon.

However, given the organizational resources still available to academic professionals, the best location to initiate a counter insurgency from the bosom of the public sector remains, without doubt, the university. For the same reason that it is the most unlikely case to suffer financial contamination, it is the best place from which to start an immunization offensive. Through demonstration effects it could then, partially, roll back the fateful process of financialization of the last two decades. Who, when and where this will start is of course hard to predict. The only thing we know for sure is that resistance starts with recognition. If we have raised awareness among our Anglophone and non-Anglophone readers of the extent of and way in which finance has penetrated its "other", this paper has succeeded in its aims.

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